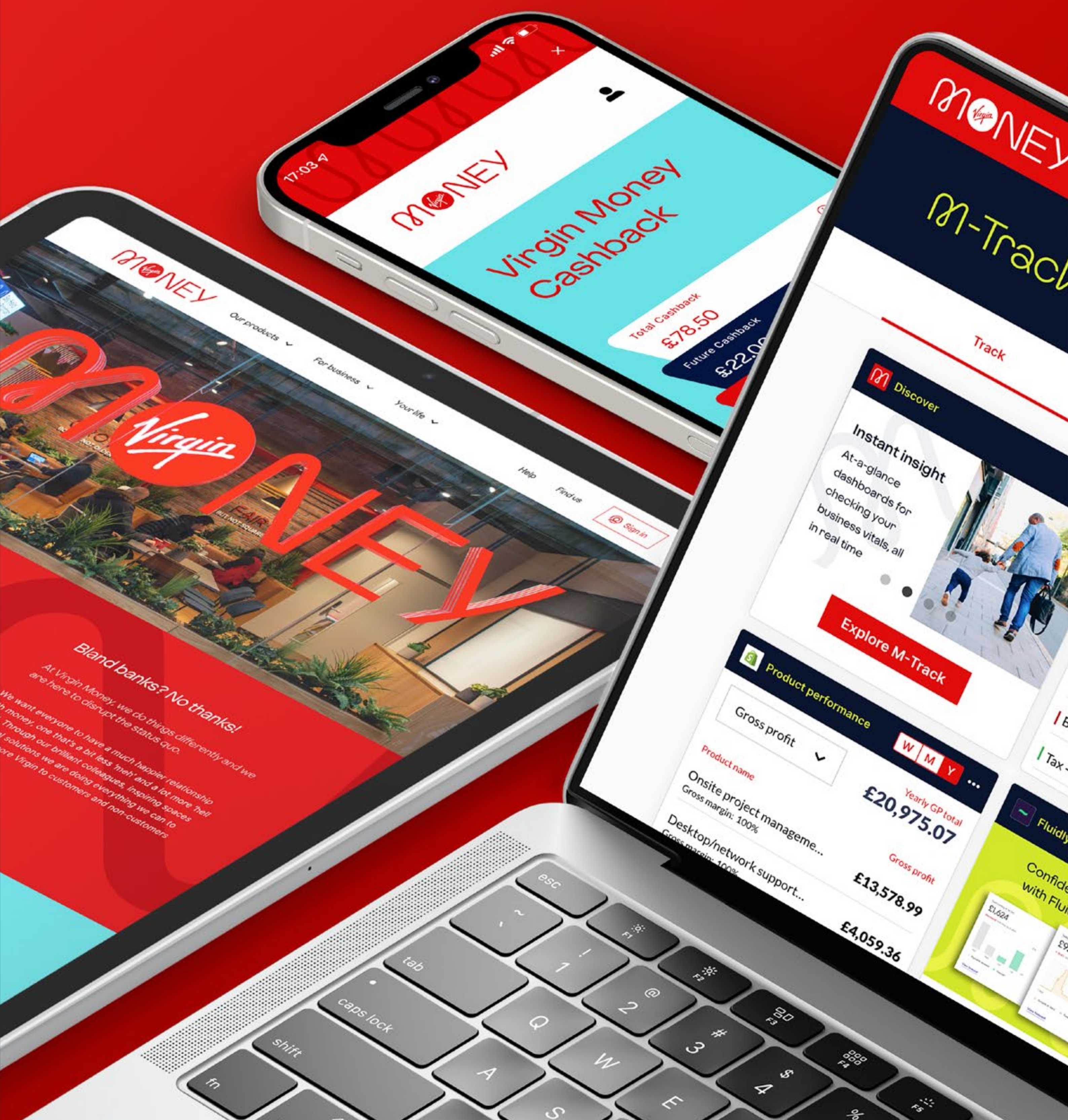
VIRGIN MONEY UK

Interim Financial Report 2022



BASIS OF PRESENTATION

Virgin Money UK PLC ('Virgin Money', 'VMUK' or 'the Company'), together with its subsidiary undertakings (which together comprise the 'Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. This release covers the results of the Group for the six months ended 31 March 2022.

Statutory basis: Statutory information is set out on page 19 and within the interim condensed consolidated financial statements.

Underlying basis: Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. A reconciliation from the underlying results to the statutory basis is shown on page 20 and rationale for the adjustments is shown on page 91.

Alternative performance measures: the financial key performance indicators (KPIs) used in monitoring the Group's performance and reflected throughout this report are determined on a combination of bases (including statutory, regulatory and alternative performance measures (APMs)), as detailed at 'Measuring financial performance – glossary' on pages 322 to 323 of the Group Annual Report and Accounts for the year ended 30 September 2021. APMs are closely scrutinised to ensure that they provide genuine insights into the Group's progress; however, statutory measures are the key determinant of dividend paying capability.

Certain figures contained in this document, including financial information, may have been subject to rounding adjustments and foreign exchange conversions. Accordingly, in certain instances, the sum or percentage change of the numbers contained in this document may not conform exactly to the total figure given.

FORWARD-LOOKING STATEMENTS

This document and any other written or oral material discussed or distributed in connection with the results (the 'Information') may include forward-looking statements, which are based on assumptions, expectations, valuations, targets and estimates about future events. These can be identified by the use of words such as 'expects', 'aims', 'anticipates', 'plans', 'intends', 'prospects', 'outlooks', 'projects', 'forecasts', 'believes', 'potential', 'possible', and similar words or phrases. These statements are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group (including but not limited to the consequences of the integration of the business of Virgin Money Holdings (UK) PLC and its subsidiaries into the Group), trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geopolitical factors, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 outbreak), changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures, cybercrime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England (BoE), the Financial Conduct Authority (FCA) and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, tax and national insurance rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group, future capital expenditures and acquisitions, the repercussions of Russia's invasion of Ukraine, the repercussions of the UK's exit from the European Union (EU) (including any change to the UK's currency and the terms of any trade agreements (or lack thereof) between the UK and the EU), Eurozone instability, and any referendum on Scottish independence.

These forward-looking statements involve inherent risks and uncertainties and should be viewed as hypothetical. The events they refer to may not occur as expected and other events not taken into account may occur which could significantly affect the analysis of the statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates (each a 'VMUK Party') gives any representation, warranty or assurance that any such events, projections or estimates will occur or be realised, or that actual returns or other results will not be materially lower than those expected.

Whilst every effort has been made to ensure the accuracy of the Information, no VMUK Party takes any responsibility for the Information or to update or revise it. They will not be liable for any loss or damages incurred through the reliance on or use of it. The Information is subject to change. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the Information is given.

The Information contains certain industry, market and competitive position data, some of which comes from third parties and some of which comes from the Group's own internal research and estimates based on the knowledge and experience of the Group's management in the markets in which the Group operates. Whilst the Group reasonably believes that such data is reputable, reasonable and reliable, no VMUK Party has independently verified the third party data and no independent source has verified the Group's research, estimates, methodology and assumptions (except to the extent any such data has been reviewed by the Group's auditors as part of their review of the Group's interim and year-end financial statements). Accordingly, undue reliance should not be placed on any such industry, market or competitive position data.

The Information does not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments. The distribution of the Information in certain jurisdictions may be restricted by law. Recipients are required to inform themselves about and to observe any such restrictions. No liability is accepted in relation to the distribution or possession of the Information in any jurisdiction.

Interim financial report

For the six months ended 31 March 2022

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Virgin Money UK PLC Interim Results 2022

David Duffy, Chief Executive Officer:

“We've made good progress against our strategy, while delivering a significant increase in profit. We have positive momentum in attracting new customers to Virgin Money through record credit card sales, good growth in personal current account openings and a strong uptake of our new digital fee-free business current account.

"We have upgraded our net interest margin guidance given strong growth in unsecured lending, combined with the rising interest rate environment. Looking ahead, while the macroeconomic outlook is uncertain and there are increased cost pressures on consumers, we remain prudently provisioned and are confident in the quality of our loan portfolio.”

Summary financials

	6 months to 31 Mar 2022 £m	6 months to 31 Mar 2021 £m	Change %	6 months to 30 Sep 2021 £m	Change %
Underlying net interest income (NII)	**782**	677	16	735	6
Underlying non-interest income	**83**	66	26	94	(12)
Total underlying operating income	**865**	743	16	829	4
Underlying operating and administrative expenses	**(456)**	(460)	(1)	(442)	3
Underlying operating profit before impairment losses	**409**	283	45	387	6
Impairment (losses)/credit on credit exposures	**(21)**	(38)	(45)	169	n/a
Underlying profit on ordinary activities before tax	**388**	245	58	556	(30)
Adjusting items	**(73)**	(173)	(58)	(211)	(65)
Statutory profit on ordinary activities before tax	**315**	72	338	345	(9)

Key performance indicators(1)

Net interest margin (NIM)	**1.83%**	1.56%	27bps	1.69%	14bps
Statutory return on tangible equity (RoTE)	**9.1%**	2.2%	6.9%pts	17.9%	(8.8)%pts
Common Equity Tier 1 (CET1) ratio (IFRS 9 transitional)	**14.7%**	14.4%	0.3%pts	14.9%	(0.2)%pts

(1) For definitions of the KPIs, refer to ‘Measuring financial performance – glossary’ on pages 322 to 323 of the Group's 2021 Annual Report and Accounts. The KPIs include statutory, regulatory and alternative performance measures. Where applicable certain KPIs are calculated on an annualised basis for the periods to 31 March.

Momentum in our financial performance; NIM guidance for FY upgraded

- Significantly improved underlying PBT compared to H1 2021; underlying profit increased 58% YoY to £388m (H1 2021: £245m) primarily reflecting stronger income. This drove improvement in statutory PBT and statutory RoTE of 9.1% (H1 2021: 2.2%)
- NIM expanded further to 1.83% in H1 (H1 2021: 1.56%) due to the benefit of higher rates, lower deposit costs from ongoing repricing and mix benefit, and a higher yielding lending mix, offsetting mortgage spread pressures
- Underlying non-interest income of £83m, up 26% YoY reflecting higher card spending and business activity levels
- Underlying costs of £456m were 1% lower YoY, as expected cost savings from ongoing digital transformation and restructuring were offset by inflation, including agreed pay rises, along with targeted growth and planned higher digital development costs
- Impairment charge of £21m (6bps cost of risk) reflects updated macroeconomics and judgements; limited specific provisions and changes in asset quality metrics in the period, with a defensively positioned portfolio as the outlook becomes more uncertain

Strong early delivery against our digital strategy – attracting new customers and progress on digital transformation

- *Customer and propositions*: Strong reaction to new digital products with sales of BCAs & PCAs doubling QoQ, record quarterly card sales & 97% of personal sales (ex. mortgages) are digital. 42% of key customer journeys now automated (FY21: 27%)
- *Colleagues and property:* A Life More Virgin supporting higher engagement; property and branch footprint reduced c.20%
- *Digital:* Mobilising cloud migration and removal of legacy applications; adoption of Agile approach to change is giving customers faster delivery of new features at a lower overall unit cost

Balance sheet well positioned; continued to optimise deposits and growth in target segments

- Strong relationship deposits growth, increasing 4.2% to £31.9bn, reflecting new current account customer acquisition; overall deposits managed lower, down 3.7% to £64.4bn with continued successful optimisation of deposit mix and funding costs
- Targeted volume growth saw a stable loan book at £71.9bn:
  - Unsecured lending grew 7.0% to £5.8bn driven by strong cards growth, reflecting customer demand and new propositions
  - Business lending declined 2.5% to £8.3bn; BAU returned to growth in Q2, and government lending ran off as expected
  - Stable mortgage balances at £57.8bn with volumes managed tactically, prioritising margin in a competitive environment
- Solid credit quality maintained across portfolios with robust coverage of 66bps (FY21: 70bps); above pre-pandemic levels
- Strong capital base: transitional CET1 ratio of 14.7% (FY21: 14.9%) and 14.4% fully loaded with underlying capital generation during the half offset by the planned removal of the software intangible benefit

FY22 outlook upgraded

- Expect FY22 NIM between 180 and 185bps based on current rate expectations
- Costs anticipated to remain broadly stable compared to FY21 level
- Expect cost of risk to rise towards through the cycle range

Updated capital framework and distribution policy

- CET1 target range of 13 – 13.5% in the long-term; expect to operate above the range for the time being
- Expect a 30% full year dividend pay-out level; given strong capital position, declaring an interim dividend of 2.5p per share
- Dividends supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval

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Virgin Money UK PLC will today be hosting a presentation for analysts and investors covering the 2022 interim financial results starting at 08:30 BST (17:30 AEST) with a pre-recorded presentation followed by live Q&A call:

https://webcast.openbriefing.com/vmuk-interim22/

A recording of the webcast and conference call will be made available on our website shortly after the meeting at:

https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/

A call for fixed income investors will be held at 10:00 BST on Monday 9 May 2022: Dial-in details: UK: 0800 640 6441; All other locations: +44 20 3936 2999; Access code: 107091

The Group will publish its inaugural interim Pillar 3 on Friday 27 May 2022.

Financial performance - summary

Summary income statement

	6 months to 31 Mar 2022 £m	6 months to 31 Mar 2021 £m	Change %	6 months to 30 Sep 2021 £m	Change %
Underlying net interest income (NII)	**782**	677	16	735	6
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Impairment (losses)/credit on credit exposures	**(21)**	(38)	(45)	169	n/a
Underlying profit on ordinary activities before tax	**388**	245	58	556	(30)
- Restructuring charges	**(46)**	(49)	(6)	(97)	(53)
- Acquisition accounting unwinds	**(14)**	(47)	(70)	(41)	(66)
- Legacy conduct costs	**(5)**	(71)	(93)	(5)	-
- Other items	**(8)**	(6)	33	(68)	(88)
Statutory profit on ordinary activities before tax	**315**	72	338	345	(9)
Tax (expense)/credit	**(77)**	8	n/a	49	n/a
Statutory profit after tax	**238**	80	198	394	(40)

Key performance indicators[1]

	6 months to 31 Mar 2022	6 months to 31 Mar 2021	Change	6 months to 30 Sep 2021	Change
Profitability:					
Net interest margin (NIM)	**1.83%**	1.56%	27bps	1.69%	14bps
Underlying return on tangible equity (RoTE)	**11.7%**	10.1%	1.6%pts	25.7%	(14.0)%pts
Underlying cost to income ratio (CIR)	**53%**	62%	(9)%pts	53%	-%pts
Underlying earnings per share (EPS)	**17.6p**	12.6p	5.0p	35.3p	(17.7)p
Statutory RoTE	**9.1%**	2.2%	6.9%pts	17.9%	(8.8)%pts
Statutory CIR	**60%**	84%	(24)%pts	78%	(18)%pts
Statutory EPS	**13.7p**	2.8p	10.9p	24.5p	(10.8)p

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 322 to 323 of the Group's 2021 Annual Report and Accounts. The KPIs include statutory, regulatory and alternative performance measures. Where applicable certain KPIs are calculated on an annualised basis for the periods to 31 March.

Financial performance - summary

Key performance indicators (continued)

As at:	31 Mar 2022	31 Mar 2021	Change	30 Sep 2021	Change
Asset quality					
Cost of risk[1]	**0.06%**	0.11%	(5)bps	(0.18)%	24bps
Total provision to customer loans	**0.66%**	1.00%	(34)bps	0.70%	(4)bps
Indexed loan to value ratio (LTV) of mortgage portfolio[2]	**54.4%**	55.2%	(0.8)%pts	55.3%	(0.9)%pts
Regulatory Capital:					
CET1 ratio (IFRS 9 transitional)	**14.7%**	14.4%	0.3%pts	14.9%	(0.2)%pts
CET1 ratio (IFRS 9 fully loaded)	**14.4%**	13.2%	1.2%pts	14.4%	-%pts
Total capital ratio	**21.8%**	21.2%	0.6%pts	22.0%	(0.2)%pts
Minimum requirement for own funds and eligible liabilities (MREL) ratio	**31.7%**	29.3%	2.4%pts	31.9%	(0.2)%pts
UK leverage ratio	**5.1%**	5.2%	(0.1)%pts	5.2%	(0.1)%pts
Tangible net asset value (TNAV) per share	**313.2p**	257.5p	55.7p	289.8p	23.4p
Funding and Liquidity:					
Loan to deposit ratio (LDR)	**112%**	105%	7%pts	108%	4%pts
Liquidity coverage ratio (LCR)	**139%**	151%	(12)%pts	151%	(12)%pts

(1) Cost of risk is calculated on an annualised basis.
(2) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance.

Summary balance sheet

	As at		
	31 Mar 2022 £m	30 Sep 2021 £m	Change %
Customer loans	**71,854**	71,996	(0.2)%
of which Mortgages	***57,798***	*58,104*	*(0.5)%*
of which Unsecured	***5,793***	*5,415*	*7.0%*
of which Business	***8,263***	*8,477*	*(2.5)%*
Other financial assets	**14,676**	15,035	(2.4)%
Other non-financial assets	**2,079**	2,069	0.5%
Total assets	**88,609**	89,100	(0.6)%
Customer deposits	**64,386**	66,870	(3.7)%
of which relationship deposits[1]	***31,887***	*30,596*	*4.2%*
of which non-linked savings	***20,784***	*21,285*	*(2.4)%*
of which term deposits	***11,715***	*14,989*	*(21.8)%*
Wholesale funding	**15,497**	13,596	14.0%
Other liabilities	**3,158**	3,161	(0.1)%
Total liabilities	**83,041**	83,627	(0.7)%
Ordinary shareholders' equity	**4,871**	4,558	6.9%
Additional Tier 1 (AT1) equity	**697**	915	(23.8)%
Equity	**5,568**	5,473	1.7%
Total liabilities and equity	**88,609**	89,100	(0.6)%
Risk Weighted Assets (RWAs)	**24,184**	24,232	(0.2)%

(1) Current account and linked savings balances

Chief Executive Officer's statement

Delivering our Digital First strategy

“We've made good progress against our strategy, while delivering a significant increase in profit. We have positive momentum in attracting new customers to Virgin Money through record credit card sales, good growth in personal current account openings and a strong uptake of our new digital fee-free business current account.

"We have upgraded our net interest margin guidance given strong growth in unsecured lending, combined with the rising interest rate environment. Looking ahead, while the macroeconomic outlook is uncertain and there are increased cost pressures on consumers, we remain prudently provisioned and are confident in the quality of our loan portfolio."

David Duffy, CEO

Dear stakeholder,

Since we announced our Digital First strategy alongside our FY21 results, we have made a strong start in delivering our key objectives of profitable growth and greater cost-efficiency. We’re already seeing early signs of a positive response as personal and business customers take advantage of our new digital propositions and loyalty programmes. We have good early momentum in delivering the gross cost savings set out, with the reduction in our physical footprint on track. The launch of key initiatives, which will drive improved customer experience through greater automation and digitisation of the bank’s core customer journeys, is also progressing well.

Although it is still early in the delivery of our Digital First strategy, we are seeing signs of our strategic delivery starting to support improved financial performance, including growth in our key focus segments, and well-controlled operating expenses. Over the course of the half, we’ve also benefited from an improving rate backdrop, which has supported our net interest margin as we’ve continued to reduce deposit costs further in supportive market conditions, and seen improved income from our structural hedge. We have also benefited from lower impairment levels compared to a year ago and, taken together, these factors have underpinned a significant increase in profitability. I’m pleased to be able to update our capital framework today, giving investors clarity about future returns, while also announcing an interim dividend of 2.5p. As we look to the remainder of the year, the Group is well placed to continue to deliver innovative propositions and profitable growth in our target segments, despite a more uncertain environment.

Our strategy remains the right one against a macroeconomic backdrop that has become more uncertain over the course of the six months. Following a period of strong recovery in Gross Domestic Product (GDP) as COVID restrictions were lifted and consumer spending levels improved, the impact of higher inflation has seen expectations for further growth start to temper. As a domestic UK bank, the Group doesn’t have direct lending exposure in Ukraine or Russia, but we are monitoring carefully for any second-order impacts arising from the conflict, particularly upon inflationary pressures in the UK. We have seen only limited changes in asset quality across the portfolios to date but have taken steps to factor the higher cost of living into our affordability assessments. It remains too early to assess the full implications of the changing backdrop and we will continue to help customers where needed. Our thoughts are with all of those impacted by the conflict, and I’m incredibly proud of the way our colleagues responded to launch a basic bank account for refugees fleeing the conflict in just 8 days, while the Group has also donated £300k to the Disasters Emergency Committee (DEC) appeal.

Strategic delivery – Growth in our target segments

As we continue to focus on digital-led growth in key target segments, we’ve made a good start to the year with relationship deposits and unsecured balances continuing to benefit from strong demand, the launch of new propositions and extended loyalty programmes. Our relaunch of the Business bank ensures we are well placed for growth over the remainder of the year as sector volumes recover.

Relationship deposits grew 4.2% in H1, benefitting from higher new sales of our Virgin Money Personal and Business Current Accounts (BCA). Personal Current Account (PCA) sales continue to be supported by attractive switching offers and we added the option for debit card cashback to PCAs in January, with c.120k customers already signing up and earning on average c.7.5% cashback on qualifying purchases. In March, we refreshed the proposition further, enhancing the interest rates on offer, following the recent Bank of England rate increases. PCA sales in Q2 were double those of Q1, and since the launch of the re-branded Virgin Money PCA in late 2020, we have opened c.180k new PCAs. The latest offer, launched in Q3, will give customers 20,000 Virgin Points to switch (equivalent to a flight to New York) for each current account opened and leaves the Group well placed to continue to drive PCA sales. We’re replicating the same rewards model for businesses with our new, fee-free digital BCA, the M-Account, which was launched in November offering debit card cashback. The strength of this new proposition has driven new BCA accounts in Q2 to double those achieved in Q1, supported by ongoing improvements to the digital sales channel which are delivering improved conversion rates. The M-account also offers businesses access to other proposition developments which will include M-Track and Marketplace.

Chief Executive Officer's statement

Unsecured lending grew 7.0% over the half, supported by record new credit card account opening levels – Q2 saw c.175k opened, beating the previous record set in Q1. Our overall proposition remains strong, with prudent underwriting, and offers customers good value and competitively priced and versatile credit cards, including cashback on purchases, for which c.350k customers have now signed up (FY21: c.230k). To this we have added Instalment Credit capability, allowing our customers access to 'Buy Now Pay Later' functionality in the credit card mobile app, offered within customers' existing, fully underwritten and affordability-stressed credit limit. The strength of our proposition has seen us deliver above-market growth, and we now have a c.8% share of the UK cards market.

In Business banking, we expected to build momentum throughout the year as the sector recovered and in Q2 we have seen growth returning to the BAU segment, alongside the anticipated run-off of government scheme lending. BAU business lending saw a 20% increase in drawdowns QoQ as the lending pipeline builds into H2. This supported BAU business balance growth of c.1% in Q2, although the overall book reduced 2.5% in the half, reflecting a 13% reduction in the government scheme lending book. The government lending book is performing as expected; some customers have chosen to pay back their loans in full, while others have begun making monthly repayments as per their schedule. Currently whilst there has been a modest increase in stage 3 Bounce back loans (BBLs), claims for defaults have been paid in full by HMT, and incidences of fraud are very low.

Strategic delivery – Delivering digital efficiency

We have made a positive start against all three of our key themes laid out at FY21: Customer and Propositions, Colleagues and Property, and Digital. Within ***Customer and Propositions***, we are making progress in offering customers an improved, digital-first customer experience. From a starting point of 70% of customer service interactions being voice-led at FY21, we've already seen a 10%pt reduction, as digital solutions such as chatbots are being introduced to enhance the customer service experience. Chatbots were first deployed in January and have now dealt with c.650k customer queries, resolving 55% of these queries without colleague intervention, freeing up colleagues and delivering stronger customer service. We have more work to do to improve customer service through greater automation and we are rapidly digitising key customer journeys, with 42% now fully digitised, up from 27% at FY21. Digital sales of personal banking products (ex. mortgages) are now 97% of total sales, and PCA digital adoption has picked up from 62% to 64%, driving towards our 80% target by FY24.

We are continuing to make progress in the ***Colleagues and Property*** workstream as VMUK transforms its colleague operating model, building on capabilities introduced over the last year, to embed fully the new A Life More Virgin (ALMV) flexible working model. ALMV features harmonised working terms, enhanced colleague benefits and enables flexible, remote working, allowing us to tap into new, more diverse talent pools. These changes have been very well received by colleagues, reflected in improved engagement scores in the period, up to 73% from 68% at FY21, and external commentators continue to be very keen to talk to us to understand the changes we've made to give our colleagues greater flexibility and freedom. In order to drive productivity, we continue to implement new IT infrastructure and have initiated programmes that will use the full power of Microsoft's Cloud computing product-suite, enhancing the way we work and supporting colleague collaboration. Greater remote working is also enabling the Group to reduce its property footprint, reducing costs and supporting the environment. The property footprint is down more than 20% since FY21, and branch numbers reduced as announced in September 2021, reflecting the changes in customer demand seen during the pandemic.

Our ***Digital*** investment continues to focus on driving our three-year transformation programme to deliver a scalable, more efficient digital growth platform, featuring migration to Cloud infrastructure and the deployment of Agile methodology and tools to increase the pace and delivery of change, at lower cost. We are still in the mobilisation phase of our Cloud migration in partnership with Microsoft, with significant planning underway, and this is set to commence in FY23, enabling us to begin exiting physical data centres in late FY23. In the meantime, we are making progress on the digitisation of the bank and the Agile delivery of change. We are in the process of starting to de-commission legacy applications, while building the new applications required to support the new Cloud infrastructure. We are deploying Microsoft tools, such as AI and robotics, and rolling out Agile methodology across our new change programmes. This is delivering new functionality for customers at greater pace at an average of c.20% lower unit costs.

Improving financial momentum and capital framework

We have seen a strong improvement in our financial performance compared to a year ago, supported by early strategic delivery combined with an improved rate environment. Statutory profit before tax of £315m was significantly higher (H1 2021: £72m), with stronger underlying profit of £388m which improved 58% (H1 2021: £245m).

The loan book remained broadly stable in the period, but with improved momentum in our key target segments including the strong growth in unsecured lending and the stabilisation of BAU business lending balances discussed above, which broadly offset the decline in government scheme lending and a small reduction in mortgages where we continued to trade tactically in a competitive market. We continued to optimise the deposit book, which reduced 3.7% over the period but with growing relationship deposit balances, which were up 4.2%, and now represent half of all deposits.

Total income improved 16% vs H1 2021 with a stronger contribution from both net interest income and other income, driven by a stronger rate environment supporting hedge income and ongoing deposit cost optimisation, along with a continued improvement in customer activity levels. Our net interest margin strengthened significantly in the half to 183 basis points (bps) (H1 2021: 156bps) and we now expect a stronger outlook for FY22 NIM of between 180 and 185bps. Other income of £83m also improved 26% compared to a year ago reflecting higher customer and business activity, including increased card spending as the cards book grew significantly in H1.

Chief Executive Officer's statement

Underlying costs of £456m were broadly stable year-on-year (H1 2021: £460m), tracking in line with expectations as the benefit of gross savings from ongoing digital transformation and restructuring were offset by the costs of growth, ongoing planned investment in new propositions, and the impacts of inflation, including agreed pay rises and the harmonisation of colleague terms. Despite the higher inflationary backdrop than at the time we set our plan, we continue to be well placed to achieve our broadly stable guidance for FY22 and our objective of £175m of gross cost savings by FY24. The delivery of these gross savings will be enabled by restructuring charges, with £46m incurred in H1 2022 and we continue to expect to incur c.£275m across FY22-FY24 with around half in FY22.

Overall adjusting items of £73m in H1 were much improved year-on-year (H1 2021: £173m) given the reduction in legacy conduct costs.

Asset quality remained robust in the period, with a low impairment charge of £21m or 6bps cost of risk. Since FY21, the UK initially saw a continued recovery post-COVID, although more recently the Ukraine conflict has seen greater uncertainty in the outlook and some reduction of forecasts. Overall, forecasts for unemployment remain below pre-COVID levels, albeit with a slightly lower pace of GDP growth. We have not yet seen the impacts of higher inflation on our customers, but have already taken actions to ensure we tighten affordability criteria, and our track record of prudent underwriting across our portfolios leaves the loan book well positioned. Our coverage remains strong at 66bps (FY21: 70bps), and above pre-pandemic levels, despite the modest reduction in the period.

Having returned to paying a dividend alongside our FY21 results, and following the Group's successful participation in its inaugural stress test last year, we're able to update the market on our capital framework and returns policy. The Group will operate in a CET1 target range of 13 – 13.5% in the long term, although we will operate above this level for the time being due to heightened macroeconomic uncertainty. The Group will target a 30% full year dividend payout ratio and the interim dividend is expected to represent around 1/3rd of the prior year's total dividend, beginning H1 2023. Dividends will be supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval. Given a strong capital position and robust H1 performance, the Board has announced an interim dividend of 2.5p.

Building momentum in delivering our Environmental, Social and Governance (ESG) ambitions

Recognising the challenges that Ukrainian people may face when trying to open an account in the UK, I was very proud of how quickly our colleagues responded, delivering an updated account opening process for refugees within 8 days. We've donated £300k to the DEC Ukraine Humanitarian Appeal and are supporting our staff who are offering up their homes to Ukrainian families and using volunteering days to support fundraising activities. We've achieved c.£200k in fundraising for our charity partner Macmillan and rolled out our national Macmillan Guides support service to support people living with or affected by cancer.

In November, we launched our new purpose-driven 'A Life More Virgin' employment package, offering equal, gender neutral family leave, 30 days' holiday and an additional five paid wellbeing days to all colleagues from day one of their employment. As we continue to evolve our senior leadership team for our digital future, we continue to focus on the diversity of our senior leadership. Women continued to comprise 42% of senior management roles and 4% of these roles are undertaken by colleagues from an ethnic background (FY21: 2%). There remains more to do here to achieve our 2025 targets which include senior gender diversity of 45-55%, ethnicity of 10%, LGBTQ+ of 4%, and disability of 8%, but we are continuing to make progress.

From a financial inclusion perspective, we continue to work with Smart Data Foundry to define a national measure for the poverty premium and, in partnership with Turn2Us, are helping people across the UK make sure they are not missing out on benefits they are entitled to. Our social media campaign, which targeted over 65's, has reached over 175,000 people, and resulted in more than 1,000 benefit calculator assessments being completed.

We are continuing to make progress in embedding our climate strategy and in developing baselines, roadmaps and targets to net zero in line with the Net-Zero Banking Alliance commitment made in September 2021. We included climate-related financial disclosures within the Group's 2021 Annual Report and Accounts and will make disclosures aligned to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in the 2022 Annual Report and Accounts. Recognising the increased relevance and materiality to the Group's risk profile, we've elevated climate risk to principal risk status.

Developing our leadership to deliver our strategy

I'd like to welcome Syreeta Brown, who joined the Group in November 2021 as Group Chief People and Communications Officer. Syreeta joined from Citi, where she spent 11 years in a number of HR roles, the most recent of which was Managing Director, Head of HR for Global Functions, Operations and Technology, and led the HR strategy for 20,000 employees across Europe, Middle East and Africa. She brings a wealth of experience in cultural transformation, talent development and in building a workforce that is fit for the future and has hands-on, senior-level experience embedding a digital agenda within a major financial services business.

I would also like to welcome Susan Poot who joined the Group in January 2022 as Group Chief Risk Officer following Mark Thundercliffe's retirement. Susan joined from ING Bank, where she spent over 20 years in a number of commercial and risk roles, the most recent of which was Chief Risk Officer, Retail Banking, where she was responsible for credit risk, compliance and operational risk management across all of ING's retail markets, managing a team of over 1,000 people and overseeing a lending book of €400 billion. Susan brings with her a wealth of experience across a range of risk disciplines, with broad banking experience across both retail and wholesale banking.

I would like to take this opportunity to thank Kate Guthrie, Mark Thundercliffe and Helen Page for their contributions to my leadership team during their time with the Group, which spanned the acquisition of Virgin Money Holdings and the significant integration and rebrand activity that has laid the platform for our exciting future. In addition, Amy Stirling will leave the Board today and I thank her for her contribution to the Board since joining as part of the Virgin Money acquisition. Finally, Paul Coby will leave the Board in June and I'd also like to thank him for his significant contribution over the past 6 years.

Outlook

Over the first half of the year, we've made good initial progress delivering against the accelerated digital strategy launched alongside our FY21 results. We will continue to focus in H2 on growing in our target segments and delivering exciting new digital propositions for customers, while continuing to improve our efficiency and customer service.

It's encouraging to see our strategy, and an improving rate environment, are combining to drive stronger financial performance. The improved NIM outlook, well controlled costs and low impairment charge have driven a significant improvement compared to a year ago underpinning all other guidance for FY22 and adding to our conviction in achieving our medium-term targets. The announcement of our updated capital framework provides a clear guide for capital returns going forwards, while we maintain a robust balance sheet.

The macroeconomic outlook has become more uncertain over the course of the six months. Following a positive recovery in expectations post-COVID, recent events have seen forecasts moderate. As we enter a more uncertain environment, we are monitoring carefully the impacts of higher inflation on the cost of living and implications for customers, as well as the second-order impacts from the conflict in Ukraine, but aren't yet seeing signs of significant stress in the book. We enter this period with prudent coverage, robust underwriting and a defensive portfolio.

We will say more on the Group's outlook and prospects for profitable growth alongside our FY22 results in November and I strongly believe the Group is well placed to deliver its strategy. We have a unique brand, and access to a complementary set of partner companies in the Virgin Group, while our deepening relationship with Virgin Red offers exciting possibilities for our customers to earn and spend Red points, with Virgin Money products and propositions at the heart of deeper, more loyal customer relationships. We will continue to make progress in developing our digital wallet over the second half of the year combining many of these unique features with instalment credit, loyalty and payment capabilities.

Overall, we continue to have the right strategy and are executing on the key components that will underpin our delivery of improved returns and profitable growth over the coming years, as we fulfil our purpose to Make You Happier About Money.

David Duffy, Chief Executive Officer – 4 May 2022

Driving sustainable improvements in returns

"The Group has made good initial progress on its Digital First strategy and it's pleasing to see strategic delivery supporting a strong financial performance to start 2022. Profitability improved substantially in the period with continued financial momentum across the business."

Clifford Abrahams, Group CFO

Financial Highlights

Statutory profit before tax	Underlying profit before tax	Statutory RoTE
£315m	£388m	9.1%
H1 2021: £72m	H1 2021: £245m	H1 2021: 2.2%

NIM	Underlying CIR	Cost of risk
1.83%	53%	6bps
H1 2021: 1.56%	H1 2021: 62%	H1 2021: 11bps

CET1 ratio	Loan growth	Relationship deposit growth
14.7%	(0.2)%	4.2%
2021: 14.9%	H1 2021: (0.3)%	H1 2021: +12.0%

Chief Financial Officer's review

Strong start to Digital First delivery

The Group has built good momentum in the first half of the financial year, with a strong set of financial results and initial delivery against the accelerated digital strategy. We are continuing to invest in our Digital First strategy, driving cost efficiency and unlocking our growth potential in key target segments. We have a clear opportunity to digitise further and accelerate profitable growth, and remain committed to delivering double digit returns. Following our successful inaugural participation in the BoE Solvency Stress Test (SST) exercise last year, we are also able to update the market on our capital framework and the outlook for capital returns.

Delivering growth in target segments

The Group has had a strong start to the year with ongoing improvement in customer propositions supporting growth in key target segments. The investment we are making in further digitising customer journeys, adding innovative new customer offerings and expanding product features, is encouraging for our future growth prospects. Relationship deposit growth has been strong year-to-date and will continue to be a key area of focus for the Group, providing a low-cost base for above-market lending growth in target segments over time. The further development of our proposition in the PCA market, including debit card cashback and a compelling linked saver account, saw us reach c.180k new PCA sales since the launch of the new PCA proposition in late 2020, while the launch of the digital fee-free BCA in November has resulted in a 100% increase in sales QoQ and will continue to support the growth of a lower cost funding base. In unsecured lending, we delivered record sales for new credit cards in Q2 and have consistently seen our market share grow. We continue to expect good momentum in this area supported by our innovative new digital propositions. In Business, the strength of our developing proposition, supported by the fee-free digital BCA as well as the broader improvement in activity, give us confidence in delivering future above-market growth in this sector.

Strong financial performance in H1

The Group delivered an underlying profit in H1 of £388m, a significant improvement compared to last year (H1 2021: £245m), resulting in underlying RoTE of 11.7% (H1 2021: 10.1%) driven primarily by improved income and lower impairments. NIM of 1.83% (H1 2021: 1.56%) was significantly improved year-on-year due to the higher rate environment, supportive conditions in the deposit market and improved liability mix, offsetting mortgage spread pressure, with the second quarter NIM increasing to 1.89%. Non-interest income of £83m was 26% higher year-on-year driven by improved customer activity. Overall, this resulted in total income that was 16% higher compared to a year ago. Operating costs were 1% lower at £456m compared to H1 2021 as expected gross cost savings were largely offset by inflation, growth and planned higher digital development costs. The improvement in income resulted in a 9%pts reduction in the cost: income ratio to 53% and drove a 45% increase in pre-provision profit year-on-year. Impairments remained low in the first half of the year at £21m, resulting in a cost of risk of 6bps.

The Group also reported an improved statutory profit before tax in the period delivering £315m (H1 2021: £72m) and a statutory RoTE of 9.1% (H1 2021: 2.2%). This reflected the improved underlying profit, and that £100m fewer adjusting items were incurred in H1 2022, due primarily to the non-recurrence of legacy conduct charges for payment protection insurance (PPI) and a lower level of acquisition accounting unwind. H1 2022 saw £73m of adjusting items: £46m of restructuring charges, £14m of acquisition accounting unwind, £5m of legacy conduct costs, and £8m of other charges.

As a result of the strong performance in the first half, the Board has announced an interim dividend of 2.5p.

Resilient balance sheet with robust capital, liquidity and funding position

Given higher uncertainty in the outlook, the Group has reduced the weighting to the upside scenario and maintained elevated PMAs. The Group maintained a conservative balance sheet position with credit provisions totalling £479m (FY21: £504m) equivalent to a coverage ratio of 0.66% (FY21: 0.70%), which remains above pre-pandemic levels. The Group continues to have a defensive portfolio comprising 80% low-risk mortgages, 12% business lending and 8% in our high-quality, higher affluence-focused unsecured book. Macroeconomic assumptions from our 3rd party provider Oxford Economics have been fully refreshed in the period.

During the period, lending volumes were 0.2% lower at £71.9bn. Deposit balances reduced 3.7% to £64.4bn given ongoing optimisation of the funding base as relationship deposits grew by 4.2%. The CET1 ratio remains strong having reduced from 14.9% at FY21 to 14.7% at H1, including the removal of the Capital Requirements Regulation (CRR)2 software benefit of c.50bps.

I was pleased with the Group's performance in its inaugural PRA stress test where VMUK remained above all reference rates and performed well relative to peers. Our updated capital framework provides flexibility to support sustainable payouts to investors, while allowing for capital generation to support our growth plans. We will operate in a target range of 13 – 13.5% in the long term, although we will operate above this level for the time being due to heightened macroeconomic uncertainty. The Group will target a 30% full year dividend payout ratio and the interim dividend is expected to represent around 1/3rd of the prior year's total dividend, beginning H1 2023. Dividends will be supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval.

Outlook

We have made good initial progress on driving our accelerated Digital First strategy, which will deliver value for investors over time. The Group continues to invest in digitally-led customer propositions, driving growth in key target segments and is supporting strong financial momentum in H1. With continued digital investment, the Group is creating the key elements to deliver strong profitable growth at low incremental costs and I'm looking forward to helping drive the business towards those ambitions.

Chief Financial Officer's review

Underlying income

	6 months to 31 Mar 2022 £m	6 months to 31 Mar 2021 £m	Change	6 months to 30 Sep 2021 £m	Change
Underlying net interest income	**782**	677	16%	735	6%
Underlying non-interest income	**83**	66	26%	94	(12)%
Total underlying operating income	**865**	743	16%	829	4%
NIM	**1.83%**	1.56%	27bps	1.69%	14bps
Average interest earning assets	**85,729**	87,134	(2)%	86,751	(1)%

Overview

Operating income of £865m was 16% higher compared with H1 2021 and 4% higher than H2 2021 as the Group continued to build financial momentum. NII improved 16% year-on-year as NIM increased 27bps to 1.83%, with a Q2 NIM of 1.89%. Other income of £83m was 26% higher compared to H1 2021 driven by higher activity levels in Business and a continued improvement in consumer spending.

NII and NIM

Asset yields increased 14bps compared to H1 2021 at an aggregate level. Within this, mortgage yields declined 10bps given the competitive backdrop impacting headline mortgage pricing. The Group remained selective in terms of participation in the market in the first half, with lower average balances also driving a reduction in NII.

In Business, a 25bps increase in yields was driven by a reduction of lower-yielding government-backed lending, and the benefit of bank base rate increasing. NII was broadly stable as an increase in the yield was offset by lower average balances.

In Unsecured, average balances increased by 10% relative to H1 2021, while yields contracted 64bps. The key driver of the reduction in yield compared to H1 2021 was the credit card book which was impacted by mix changes as customers paid down higher-yielding unsecured balances and new business was written at lower yields. Elsewhere, the average yield on the Group's liquid assets increased 18bps reflecting the higher rate environment.

Liability rates decreased 14bps relative to H1 2021, with the reduction driven broadly across lower savings costs and lower term deposit costs more than offsetting higher current account and wholesale funding costs. We continued to see an increase in average balances across lower-cost current accounts and savings products. Term deposits fell as a proportion of the book and were also 32bps cheaper, while savings costs reduced by 15bps in the period to 33bps (H1 2021: 48bps), reflecting the impact of repricing activity. Wholesale funding costs increased in the period, driven mainly by an increase in average balances with the continued optimisation of overall funding.

In FY22 we now anticipate a full year NIM of 1.80% to 1.85%. This reflects the benefit of a higher proportion of low-cost relationship deposits, a higher-yielding asset mix, structural hedge contributions and the higher rate environment partially mitigated by competitive pressure on mortgage spreads.

Underlying net interest income

Average balance sheet	6 months ended 31 March 2022 Average balance £m	6 months ended 31 March 2022 Interest income/ (expense) £m	6 months ended 31 March 2022 Average yield/ (rate)(1) %	6 months ended 31 March 2021 Average balance £m	6 months ended 31 March 2021 Interest income/ (expense) £m	6 months ended 31 March 2021 Average yield/ (rate)(1) %
Interest earning assets:						
Mortgages	**57,976**	**641**	**2.22**	58,303	673	2.32
Unsecured lending	**5,902**	**195**	**6.62**	5,344	194	7.26
Business lending(2)	**8,314**	**149**	**3.59**	8,916	149	3.34
Liquid assets	**12,563**	**24**	**0.38**	12,860	13	0.20
Due from other banks	**970**	**-**	**0.05**	1,707	-	(0.03)
Swap income/other	-	**9**	**n/a**	-	(55)	n/a
Other interest earning assets	**4**	**-**	**n/a**	4	-	n/a
Total average interest earning assets	**85,729**	**1,018**	**2.38**	87,134	974	2.24
Total average non-interest earning assets	**3,218**			3,450		
Total average assets	**88,947**			90,584		
Interest bearing liabilities:						
Current accounts	**15,467**	**(13)**	**(0.17)**	14,000	(4)	(0.06)
Savings accounts	**31,388**	**(52)**	**(0.33)**	29,284	(71)	(0.48)
Term deposits	**13,348**	**(68)**	**(1.02)**	19,892	(133)	(1.34)
Wholesale funding	**15,059**	**(102)**	**(1.36)**	13,767	(87)	(1.27)
Other interest earning liabilities	**150**	**(1)**	**n/a**	168	(2)	n/a
Total average interest bearing liabilities	**75,412**	**(236)**	**(0.63)**	77,111	(297)	(0.77)
Total average non-interest bearing liabilities	**7,987**			8,477		
Total average liabilities	**83,399**			85,588		
Total average equity	**5,548**			4,996		
Total average liabilities and average equity	**88,947**			90,584		
Net interest income		**782**	**1.83**		677	1.56

(1) Average yield is calculated by annualising the interest income/expense for the period.
(2) Includes loans designated at fair value through profit or loss (FVTPL).

Underlying non-interest income

Non-interest income improved £17m relative to H1 2021 to £83m. The key drivers of the improvement were £7m stronger performance in Personal as activity levels recovered, a £4m benefit from improved business fee performance, and £6m benefit from fair value movements. The improvement in Personal fee income was driven by the benefit of easing lockdown restrictions and higher interchange fees as consumer spending increased.

Following the rebound of non-interest income to more normalised pre-COVID levels, the delivery of the Group’s strategic initiatives are targeted to drive a further improvement over the coming years.

Underlying costs

Operating and administrative expenses	6 months to 31 Mar 2022 £m	6 months to 31 Mar 2021(1) £m	Change	6 months to 30 Sep 2021(1) £m	Change
Staff costs	**184**	176	5%	172	7%
Property and infrastructure	**20**	21	(5)%	22	(9)%
Technology and communications	**57**	61	(7)%	52	10%
Corporate and professional services	**54**	49	10%	52	4%
Depreciation, amortisation and impairment	**67**	81	(17)%	74	(9)%
Other expenses	**74**	72	3%	70	6%
Total underlying operating and administrative expenses	**456**	460	(1)%	442	3%
Underlying CIR	**53%**	62%	(9)%pts	53%	-%pts

(1) In the Group's 2021 Annual Report and Accounts, the methodology for categorising operating and administrative expenses before impairment losses was refined to provide a more accurate reflection of what these costs represent. The 6 months to 31 March 2021 and the 6 months to 30 September 2021 comparatives have been amended to conform with the current period's presentation. Refer to note 2.4 for further detail.

Underlying operating expenses reduced 1% relative to H1 2021 to £456m with the cost: income ratio reducing 9% pts to 53% compared with H1 2021 due primarily to the higher income, which benefitted from strategic delivery and the higher rate environment. The Group delivered gross cost savings of c.£30m in the first half of the year relative to H1 2021. These benefits were broadly offset by higher wage inflation and costs linked to balance sheet growth, as well as increased digital development costs, in line with our guidance at FY21. The Group continues to expect broadly stable costs for FY22 compared to FY21.

Impairments

As at 31 March 2022	Credit provisions £m	Gross lending £bn	Coverage ratio bps	Net cost of risk(1) bps	% of loans in Stage 2	% of loans in Stage 3
Mortgages	**66**	**58.1**	**11**	**(7)**	**9.1%**	**1.1%**
Unsecured:	**221**	**6.2**	**404**	**257**	**10.5%**	**1.3%**
of which credit cards	199	5.1	422	330	11.1%	1.3%
of which personal loans and overdrafts	22	1.1	297	(157)	7.3%	1.3%
Business	**192**	**8.1**	**258(2)**	**(64)**	**24.8%**	**3.7%**
Total	**479**	**72.4**	**66**	**6**	**11.0%**	**1.4%**
of which Stage 2	247	*7.9*	*315*			
of which Stage 3	101	*1.0*	*1,070*			

(1) Cost of risk is calculated on an annualised basis.
(2) Government-guaranteed element of loan balances excluded for the purposes of calculating the Business and total coverage ratio.

As at 30 September 2021	Credit provisions £m	Gross lending £bn	Coverage ratio bps	Net cost of risk bps	% of loans in Stage 2	% of loans in Stage 3
Mortgages	87	58.5	15	(7)	12.3%	1.1%
Unsecured:	194	5.8	380	(64)	9.7%	1.2%
of which credit cards	*160*	*4.7*	*379*	*5*	*10.7%*	*1.3%*
of which personal loans and overdrafts	*34*	*1.1*	*386*	*(386)*	*5.0%*	*1.1%*
Business	223	8.3	306(1)	(62)	29.2%	2.8%
Total	504	72.6	70	(18)	14.1%	1.3%
of which Stage 2	*302*	*10.2*	*302*			
of which Stage 3	*91*	*1.0*	*959*			

(1) Government-guaranteed element of loan balances excluded for the purposes of calculating the Business and total coverage ratio.

Chief Financial Officer’s review

Total credit provisions reduced to £479m at H1 2022 (FY21: £504m), resulting in aggregate coverage of 66bps (FY21: 70bps) which remains in excess of coverage levels prior to the pandemic.

The key macroeconomic inputs and weightings have been updated based on scenarios provided by our 3rd party provider Oxford Economics with more conservative weightings applied than previously assumed, to adjust for the more uncertain economic backdrop. These include a 10% weighting to the Upside scenario, 55% to the Base scenario and 35% to the Downside. The weighted economic scenarios include a 2.5% recovery in GDP in 2022, peak unemployment of 4.8% and a decline in House Price Index (HPI) across 2023 and 2024.

The model updates and overlays have resulted in limited adverse portfolio stage migration, with loans classified as Stage 2 reducing from 14.1% of the portfolio to 11.0% at H1 2022. Although this is higher relative to pre-pandemic levels, 98% of Stage 2 lending balances remain <30 days past due (DPD), with most not past due. Stage 3 assets increased modestly from 1.3% to 1.4% of Group lending driven primarily by movements in the business book. Modelled provisions were broadly stable in the period at £262m (30 September 2021: £266m), as reductions in the mortgage and business portfolios offset an increase in cards.

To supplement the modelled expected credit loss (ECL) provision, the Group applied expert credit risk judgement through post-model adjustments (PMAs), designed to account for factors that the models cannot incorporate. Through this process, the Group applied PMAs of £179m (FY21: £207m) which are deemed appropriate for our portfolio at the current time. This includes a new affordability stress PMA of £26m across the Retail portfolios in order to account for potential impacts of the current cost of living shock that is likely to be underestimated in the modelled outcome.

Across all portfolios, the Group has adequate provision coverage that remain ahead of pre-pandemic levels. In Mortgages, the coverage ratio of 11bps is deemed appropriate for the conservative loan book. The mortgage portfolio continues to evidence strong underlying credit performance, with no notable deterioration in asset quality.

Our Unsecured lending book coverage ratio of 404bps includes 422bps of coverage for our high-quality credit card portfolio which focuses on more affluent customers, and 297bps of coverage for our smaller personal loans and overdrafts book. The modelled provision increased due to a modest increase in early stage arrears and updated credit appetite as well as a return to more normalised customer indebtedness model inputs, which together more than offset the positive impact of current macroeconomics. Overall arrears levels remain modest across the portfolio with 98% of Unsecured balances in stage 1 or stage 2 not past due.

In Business, the coverage ratio of 258bps reflects a 48bps decrease in the period. There has been limited change in underlying asset quality performance and, as yet, no significant increase in specific provision recognition. The lending book continues to be biased away from sectors likely to experience more disruption from higher cost of living such as hospitality and retail, towards sectors expected to be resilient, such as agriculture and health and social care.

Adjusting items and statutory profit

	6 months to		
	31 Mar 2022 £m	31 Mar 2021 £m	30 Sep 2021 £m
Underlying profit on ordinary activities before tax	**388**	245	556
Adjusting items			
- Restructuring charges	**(46)**	(49)	(97)
- Acquisition accounting unwinds	**(14)**	(47)	(41)
- Legacy conduct costs	**(5)**	(71)	(5)
- Other items	**(8)**	(6)	(68)
Statutory profit on ordinary activities before tax	**315**	72	345
Tax (expense)/credit	**(77)**	8	49
Statutory profit for the period	**238**	80	394
Underlying RoTE	**11.7%**	10.1%	25.7%
Statutory RoTE	**9.1%**	2.2%	17.9%
TNAV per share	**313.2p**	257.5p	289.8p

Overview

The Group made a statutory profit before tax of £315m after deducting £73m of adjusting items. The adjusting items charged in H1 2022 reflect the Group's investment in its digital growth strategy as well as acquisition accounting unwind costs, legacy conduct charges and other items. Overall adjusting items were £100m lower than those incurred in H1 2021, primarily reflecting the non-recurrence of legacy conduct charges for PPI and lower acquisition accounting unwinds.

TNAV per share increased 23.4p in H1 2022 relative to H2 2021, to 313.2p. The key drivers of the increase were 18.2p of retained earnings and a further 3.3p of positive reserve movements.

Restructuring charges

The Group incurred £46m of costs reflecting the Digital First investment programme and associated severance and property closure costs. Overall, the Group still anticipates a total of c.£275m of costs to support the digital strategy between FY22-24, with around half incurred in FY22.

Acquisition accounting unwinds

The Group recognised fair value accounting adjustments at the time of the Virgin Money acquisition that unwind through the income statement over the remaining life of the related assets and liabilities (c.5 years). £14m was reflected in H1 2022. The Group expects a further c.£40m of total acquisition accounting unwind charges by end of FY24.

Legacy conduct

Charges of £5m were incurred in H1 2022, mainly in respect of a number of non-PPI customer redress matters, legal proceedings, and claims arising in the ordinary course of the Group's business.

Other items

The Group incurred £8m of other one-off adjusting costs during the first half of the year, primarily relating to the investment joint venture.

Taxation

In respect of a statutory pre-tax profit of £315m, there was a £77m tax charge reflecting an effective tax rate of 24%.

Chief Financial Officer's review

Balance sheet

	As at		
	31 Mar 2022 £m	30 Sep 2021 £m	Change
Mortgages	**57,798**	58,104	(0.5)%
Unsecured	**5,793**	5,415	7.0%
Business[1]	**8,263**	8,477	(2.5)%
Total customer lending	**71,854**	71,996	(0.2)%
Relationship deposits[2]	**31,887**	30,596	4.2%
Non-linked savings	**20,784**	21,285	(2.4)%
Term deposits	**11,715**	14,989	(21.8)%
Total customer deposits	**64,386**	66,870	(3.7)%
Wholesale funding	**15,497**	13,596	14.0%
of which TFS	**-**	*1,244*	*(100)%*
of which TFSME	***7,200***	*4,650*	*54.8%*
LDR	**112%**	108%	4%pts
LCR	**139%**	151%	(12)%pts

(1) Of which, £1,148m government lending (30 September 2021: £1,318m)
(2) Current account and linked savings balances.

Overview

At an aggregate level, Group lending reduced by 0.2% to £71.9bn as growth in Unsecured lending was more than offset by a reduction in Mortgages and Business lending. Total customer deposits reduced by 3.7% to £64.4bn reflecting careful management, while relationship deposits grew 4.2% to £31.9bn as the Group continued to successfully improve its deposit mix.

Mortgage balances reduced by 0.5% to £57.8bn as the Group continued to prioritise margin in an increasingly competitive environment. With slower market demand post the Stamp Duty holiday in the first half of the financial year, market competition intensified as increases in customer rates being offered were more than offset by higher swap rates, reducing spreads.

Unsecured balances increased by 7.0% to £5.8bn led by above-market growth in credit card balances. The Group has benefitted from improved customer activity following the significant removal of pandemic-related restrictions, with competitive pricing, innovative product features and ongoing investment in the overall, digitally-led proposition.

Business lending reduced 2.5% to £8.3bn, driven by reductions in government-guaranteed lending schemes as borrowers continued to repay balances following the expiry of the 1-year interest free period. BAU balances were broadly stable given generally subdued market activity, though with growth in Q2 in line with the broader economic recovery and improved business confidence.

Customer deposits reduced 3.7% in the period to £64.4bn. The Group continued to optimise the deposit base with a 21.8% reduction in term deposits and a 4.2% growth in relationship deposits, supported by the strength of the PCA and BCA propositions, including compelling new Brighter Money Bundles, added product features such as the launch of debit card cashback and an improved customer experience, supported by the further roll-out of digital on-boarding.

Wholesale funding and liquidity

The Group maintains a robust funding and liquidity position. The Group's LDR increased 4% points in the period to 112% (FY21: 108%), primarily as a result of the continued reduction in more expensive term deposits. While opting to manage liquidity slightly lower, the Group's LCR of 139% (FY21: 151%) continues to comfortably exceed both regulatory requirements and our more prudent internal risk appetite metrics, ensuring a substantial buffer in the event of any outflows due to the cost of living squeeze.

The Group made further drawings of £2.6bn from the BoE's Term Funding Scheme with additional incentives for small or medium sized enterprises (TFSME) during the period ahead of its closure, taking the total outstanding amount to £7.2bn at H1 2022, while at the same time repaying its remaining £1.2bn of TFS drawings. The incremental TFSME drawings, along with a successful £600m 5-year covered bond transaction during the period, meant wholesale funding increased to £15.5bn as at H1 2022 (FY21: £13.6bn), offsetting the reduction in term deposits.

Capital	As at		
	31 Mar 2022	30 Sep 2021	Change
CET1 ratio (IFRS 9 transitional)	**14.7%**	14.9%	(0.2)%pts
CET1 ratio (IFRS 9 fully loaded)	**14.4%**	14.4%	-%pts
Total capital ratio	**21.8%**	22.0%	(0.2)%pts
MREL ratio	**31.7%**	31.9%	(0.2)%pts
UK leverage ratio	**5.1%**	5.2%	(0.1)%pts
RWAs (£m)	**24,184**	24,232	(0.2)%
of which Mortgages (£m)	***10,023***	*10,010*	*0.1%*
of which Unsecured (£m)	***4,602***	*4,311*	*6.8%*
of which Business (£m)	***6,007***	*6,040*	*(0.5)%*

(1) Unless where stated, data in the table shows the capital position on a Capital Requirements Directive (CRD) IV 'fully loaded' basis with International Financial Reporting Standard (IFRS) 9 transitional adjustments applied.
(2) The capital ratios include unverified profits.

Overview

The Group has maintained a robust capital position with a CET1 ratio (IFRS 9 transitional basis) of 14.7%, which includes the removal of the CRR2 software benefit of 53bps and a total capital ratio of 21.8%. The Group's CET1 ratio on an IFRS 9 fully loaded basis remained stable at 14.4%. The Group's latest Pillar 2A requirement has a CET1 element of 1.7%. Overall, the Group's CRD IV minimum CET1 capital requirement (or MDA threshold) remains 8.7%.

CET1 capital

CET1 reduced by 18bps in the period with the movements set out in the table below. The removal of the software benefit that was introduced as part of the CRR Quick Fix reduced the CET1 ratio by 53bps.

CET1 Capital movements	**6 months to 31 Mar 2022 %/bps**
Opening CET1 ratio	**14.9%**
Capital generated (bps)	**103**
RWA growth (bps)	**(6)**
AT1 distributions (bps)	**(10)**
Underlying capital generated (bps)	**87**
Restructuring charges (bps)	**(14)**
Acquisition accounting unwind (bps)	**(4)**
Conduct (bps)	**(2)**
Foreseeable ordinary dividends (bps)	**(25)**
Other (bps)	**(7)**
Impact of intangible asset relief (bps)	**(53)**
Net capital absorbed (bps)	**(18)**
Closing CET1 ratio	**14.7%**

(1) The table shows the capital position on a CRD IV 'fully loaded' basis with IFRS 9 transitional adjustments applied

MREL

The Group's transitional MREL ratio remained broadly stable during the period at 31.7% (FY21: 31.9%), representing prudent headroom of 7.0% or c.£1.7bn over the Group's 2022 end-state MREL (plus buffers) requirement of 24.7% of RWAs. Given the surplus to end state requirements and with no maturities in FY22, the Group is not planning any MREL issuance over the remainder of the year.

Chief Financial Officer's review

Outlook and guidance

FY22 financial guidance

NIM

NIM expected to be 180-185bps

Underlying costs

Underlying costs expected to be broadly stable in FY22

Cost of risk

Expect cost of risk to rise towards through the cycle range

Capital return

Dividend pay-out 30% at FY22; buybacks subject to ongoing assessment of surplus capital, market conditions and regulatory approval

Medium-term outlook:

The Board believes that, assuming no significant further deterioration in expectations for the economic outlook, Virgin Money has a clear path to delivering sustainable double digit statutory returns on tangible equity in FY24

Based on the latest outlook and good momentum in NIM in H1, the Group expects NIM for FY22 to be around 180-185bps, assuming three further rate increases during FY22.

The Group expects underlying operating expenses to be broadly stable reflecting higher costs from inflation, targeted growth and digital development, which are expected to be broadly offset by gross savings from ongoing digital transformation and restructuring. The Group continues to anticipate c.£275m of restructuring costs relating to the Digital First strategy across FY22-24, with around half in FY22.

Cost of risk is expected to rise towards the through the cycle range.

The Group will operate in a CET1 target range of 13 – 13.5% in the long term, although we will operate above this level for the time being due to heightened macroeconomic uncertainty. The Group will target a 30% full year dividend pay-out ratio and the interim dividend is expected to represent around 1/3rd of the prior year's total dividend, beginning H1 2023. Dividends will be supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval.

The Board will review the timing of possible buybacks on an ongoing basis when it assesses that the Group has excess capital. Given the importance of the Annual Cyclical Scenario (ACS) stress test results, and subsequent calibration of capital buffers in assessing excess capital, it is anticipated that any distributions via buybacks would ordinarily be aligned to interim results from FY23. Any buyback considerations in FY22 would be conducted in line with the framework announced, with due consideration to the current uncertain environment, and would remain subject to regulatory approval.

In the medium term, the Board believes that, assuming no significant further deterioration in expectations for the economic outlook, Virgin Money has a clear path to delivering sustainable double digit statutory returns on tangible equity in FY24. The improvement in returns will be underpinned by above-market growth in Business (non-government) and Unsecured, mix driven NIM expansion, with OOI to rise as a proportion of total income and a cost to income ratio of c.50% by FY24.

Clifford Abrahams, Chief Financial Officer - 4 May 2022

Financial review - statutory basis

Summary income statement

	6 months to 31 Mar 2022 £m	6 months to 31 Mar 2021 £m	Change %	6 months to 30 Sep 2021 £m	Change %
Net interest income	**777**	646	20	711	9
Non-interest income	**67**	49	37	83	(19)
Total operating income	**844**	695	21	794	6
Operating and administrative expenses	**(508)**	(585)	(13)	(618)	(18)
Operating profit before impairment losses	**336**	110	205	176	91
Impairment (losses)/credit on credit exposures	**(21)**	(38)	(45)	169	n/a
Statutory profit on ordinary activities before tax	**315**	72	338	345	(9)
Tax (expense)/credit	**(77)**	8	n/a	49	n/a
Statutory profit after tax	**238**	80	198	394	(40)

The Group has recognised a statutory profit before tax of £315m (31 March 2021: profit before tax of £72m). The increase in statutory profit is largely reflective of a significant increase in operating income and a reduction in operating and administrative expenses. The Group continues to expect that the difference between underlying and statutory profit will reduce over time as we deliver our strategy and adjusting items reduce.

Key performance indicators(1)

	6 months to 31 Mar 2022	6 months to 31 Mar 2021	Change	12 months to 30 Sep 2021(2)	Change
Profitability:					
Statutory RoTE	**9.1%**	2.2%	6.9%pts	10.2%	(1.1)%pts
Statutory CIR	**60%**	84%	(24)%pts	81%	(21)%pts
Statutory EPS	**13.7p**	2.8p	10.9p	27.3p	(13.6)p

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 322 to 323 of the Group's 2021 Annual Report and Accounts. The KPIs include statutory, regulatory and alternative performance measures. Where applicable certain KPIs are calculated on an annualised basis for the periods to 31 March.

(2) Profitability KPIs are provided with a full year to 30 September 2021 comparative in line with the statutory income statement presentation in the financial statements and as previously reported in the Group's 2021 Annual Report and Accounts.

Reconciliation of statutory to underlying results

The statutory basis presented within this section reflects the Group's results as reported in the financial statements. The underlying basis reflects the Group's financial performance prepared on an underlying basis as presented to the CEO, Executive Leadership Team and Board and exclude certain items that are part of the statutory results. The table below reconciles the statutory results to the underlying results, and full details on the adjusted items to the underlying results are included on page 91.

6 months to 31 Mar 2022	**Statutory results £m**	**Restructuring charges £m**	**Acquisition accounting unwinds £m**	**Legacy conduct £m**	**Other £m**	**Underlying basis £m**
Net interest income	**777**	**-**	**5**	**-**	**-**	**782**
Non-interest income	**67**	**-**	**8**	**-**	**8**	**83**
Total operating income	**844**	**-**	**13**	**-**	**8**	**865**
Total operating and administrative expenses before impairment losses	**(508)**	**46**	**1**	**5**	**-**	**(456)**
Operating profit before impairment losses	**336**	**46**	**14**	**5**	**8**	**409**
Impairment losses on credit exposures	**(21)**	**-**	**-**	**-**	**-**	**(21)**
Profit on ordinary activities before tax	**315**	**46**	**14**	**5**	**8**	**388**
Financial performance measures						
RoTE	**9.1%**	**1.6%**	**0.5%**	**0.2%**	**0.3%**	**11.7%**
CIR	**60.2%**	**(4.7)%**	**(1.4)%**	**(0.5)%**	**(0.9)%**	**52.7%**
Basic EPS	**13.7p**	**2.5p**	**0.7p**	**0.3p**	**0.4p**	**17.6p**

6 months to 30 Sep 2021	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	711	-	24	-	-	735
Non-interest income	83	-	11	-	-	94
Total operating income	794	-	35	-	-	829
Total operating and administrative expenses before impairment losses	(618)	97	6	5	68	(442)
Operating profit before impairment losses	176	97	41	5	68	387
Impairment credit on credit exposures	169	-	-	-	-	169
Profit on ordinary activities before tax	345	97	41	5	68	556
Financial performance measures						
RoTE	17.9%	3.6%	1.5%	0.2%	2.5%	25.7%
CIR	77.8%	(11.2)%	(4.8)%	(0.6)%	(7.9)%	53.3%
Basic EPS	24.5p	4.9p	2.1p	0.3p	3.5p	35.3p

6 months to 31 Mar 2021	Statutory results £m	Restructuring charges £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	646	-	31	-	-	677
Non-interest income	49	-	12	-	5	66
Total operating income	695	-	43	-	5	743
Total operating and administrative expenses before impairment losses	(585)	49	4	71	1	(460)
Operating profit before impairment losses	110	49	47	71	6	283
Impairment losses on credit exposures	(38)	-	-	-	-	(38)
Profit on ordinary activities before tax	72	49	47	71	6	245
Financial performance measures						
RoTE	2.2%	2.2%	2.2%	3.2%	0.3%	10.1%
CIR	84.2%	(6.3)%	(6.1)%	(9.1)%	(0.8)%	61.9%
Basic EPS	2.8p	2.8p	2.7p	4.0p	0.3p	12.6p

Risk Report

Risk overview

Effective risk management is critical to realising the Group's strategy of pioneering growth. The safety and soundness of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'.

Risk exists in everything we do, from day-to-day operational activities to strategic change initiatives; without risk we will never achieve our strategic goals but when taking risks, we must ensure we do so in an appropriate way.

A strong risk culture, grounded in the understanding of the Group's risks, is key to enabling our strategy to disrupt the status quo. Our Purpose and Values play a big part in our risk culture by setting out what we want to do and how we want to do it. Personal accountability is at the heart of this and is enabled through the risk management accountability model and formal delegation framework, which supports us in making risk-based decisions and fulfilling our obligations under the Senior Managers and Certification Regime.

The Group identifies and manages risk in line with the Risk Management Framework (RMF). The RMF is the totality of systems, structures, policies, processes and people that identifies, measures, evaluates, controls, mitigates, monitors and reports all internal and external sources of material risk. The RMF aligns to Our Purpose by establishing a single and complete view of the end to end risk lifecycle, in order to protect the interests of all customers and stakeholders. The RMF applies to all areas of the Group and is the responsibility of the Board. It is approved formally on an annual basis and is subject to ongoing review to ensure that it remains fit for purpose.

Risk appetite is defined as the level and types of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The Risk Appetite Statement (RAS) articulates the Group's risk appetite to internal stakeholders and provides a view on the risk-taking activities the Board is comfortable with, guiding decision-makers in their strategic and business decisions.

Principal risks

Principal risks are those which could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity or reputation.

The Group's principal risks are listed below and remain as disclosed in the 2021 Annual Report and Accounts, with the exception of climate risk, which has been reclassified from a cross-cutting risk to a principal risk due to its increasing relevance and materiality to the Group's risk profile. Operational resilience is now included within Operational and resilience risk.

Principal risks	Definitions
Credit risk	The risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.
Financial risk	Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Regulatory and compliance risk	The risk of failing to comply with relevant laws and regulation, failing to implement new regulatory requirements, or not keeping the regulators informed of relevant issues or responding effectively to regulatory requests, leading to regulatory sanction.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in customer harm, regulatory censure, redress costs and reputational damage.
Operational and resilience risk	The risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or from external events, incorporating the inability to maintain critical services, recover quickly and learn from unexpected/adverse events.
Technology risk	The risk of loss or customer harm resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data risk and payment risk.
Financial crime and fraud risk	The risk that products and services will be used to facilitate financial crime, resulting in harm to customers, the Group, or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.
Strategic and enterprise risk	The risk of significant loss of earnings or damage from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of transformation activity.
People risk	The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.
Climate risk	The risk of exposure to physical and transition risks arising from climate change.

Further detail on the Group's principal risks and how they are managed is available in the 2021 Annual Report and Accounts.

Risk overview

Emerging risks

The Group considers an emerging risk to be any risk which has a material unknown and unpredictable component, with the potential to significantly impact the future performance of the Group or result in customer harm. The Group's emerging risks are continually reassessed and reviewed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors and is designed to capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods.

The emerging risk classifications reported in the Group's 2021 Annual Report and Accounts have been retained. In addition, a new emerging risk, New Digital Asset Classes, has been included. Risk summaries have been refreshed since the year-end disclosure, with important developments and areas most relevant to the Group's strategy shown.

Emerging risks	Trend	Description
External emerging risks		
Political and economic risk	▲	Geopolitical tensions, including the war in Ukraine, are creating volatility within domestic and global markets, leading to wide ranging impacts affecting inflation, global trade and consumer confidence. These risks in aggregate, alongside the substantial increase in the cost of living in the UK, could impact customer resilience and consequently debt affordability. Uncertainty remains over the ability for economies and society to adapt to future variants of existing viruses or new strains. An increase in restrictions could pose a range of social, economic and technological risks.
Regulatory change	▶	The Group remains subject to high levels of oversight and a complex programme of regulatory change from a number of different regulatory bodies. The regulatory landscape continues to evolve, needing ongoing responses to the emerging prudential and conduct driven developments and delivery of associated implementation requirements.
ESG risk	▲	Previously positioned solely around climate risk, this broader ESG risk acknowledges the uncertainty around the exact nature and impact of climate change on the Group's strategy, performance and operating model, as well as capturing the increased focus on how companies report the impact of their activities on the environment and on the social challenges to which company business models must respond.
Third-party risk	▶	The Group's accelerated digitisation strategy could lead to complex and significant dependencies on third party services, requiring effective assessment and management of the levels of reliance that will be placed on these suppliers.
Internal emerging risks		
Data stewardship	▶	The Group's accelerated digitisation strategy, combined with changing regulatory requirements and technological advancements such as Cloud solutions, places increasing importance on the effective and ethical use of data.
Resilience risk	▶	The rapid pace of technological change, coupled with changing customer requirements, creates increasing demand on systems resilience and our people. This could be heightened by the Group's accelerated digital strategy given the volume and pace of change required.
Changing skill requirements	▲	Against the backdrop of the Group's digitisation strategy, challenges remain in respect to recruiting talent, with skill shortages affecting a number of areas and uncertainty over future talent attraction. The Group has implemented its a Life More Virgin Model to help support colleagues and to strengthen our proposition in the market.
New digital asset classes	▶	There is a risk of industry transformation due to digital asset and transaction innovation, which generates competition risk and uncertainty as to the future digital customer proposition and market landscape. The Group horizon scans external developments in the financial technology landscape to mitigate risks and to identify strategic opportunities.

Further detail on the Group's emerging risks and how they are managed is available in the 2021 Annual Report and Accounts.

Credit risk

Credit risk

Credit risk overview

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.

Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations and have underpinned its resilience in recently challenging times. While the effects of COVID-19 have eased considerably, we still expect the emergence of some delayed COVID-19 impacts. This, together with the significant inflationary headwinds, have the potential to affect both Retail and Business customers' resilience and debt affordability. The Group is taking a number of steps to support customers through this period of heightened affordability pressure and ensure that the credit risk framework and associated policies remain effective and appropriate.

Managing credit risk within our asset portfolios

Risk appetite

The Group controls its levels of credit risk by placing limits on the amount of risk it is willing to take in order to achieve its strategic objectives. This involves a defined set of qualitative and quantitative limits in relation to its credit risk concentrations to one borrower, or group of borrowers, and to geographical, product and industry segments. The management of credit risk within the Group is achieved through ongoing approval and monitoring of individual transactions, timely changes to application scorecards and supporting credit strategies, regular asset quality reviews and the independent oversight of credit decisions and portfolios.

The FY22 RAS continues to recognise some of the delayed impacts of COVID-19 and updates have been made to tighten underwriting criteria and review metric calibration, to reflect the uncertain economic environment and the significant inflationary headwinds and cost of living pressures that are expected to emerge. The RAS is positioned to ensure a controlled approach to portfolio management and new lending origination.

Climate risk is considered an important component of the broader RMF and is reflected through the inclusion of climate-related risk factors within the FY22 RAS. The framework embeds climate risk considerations across various aspects of customer lending and credit risk management practices. Further detail is provided in the TCFD report, on pages 218 to 234 of the Group's 2021 Annual Report and Accounts.

Measurement

The Group uses a range of statistical models, supported by both internal and external data, to measure credit risk exposures. These models underpin the internal ratings-based (IRB) capital calculation for the Mortgage and Business portfolios and account management activity for all portfolios.

Further information on the measurement and calculation of ECLs and the Group's approach to the impairment of financial assets can be found on page 27.

The Group's portfolios are subject to regular stress testing, including participation in the BoE SST exercise for the first time during 2021. Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provision and the potential impact on RWA and capital. Management will consider how each stress scenario may impact on different components of the credit portfolio. The primary method applied uses migration matrices, modelling the impact of PD rating migrations and changes in portfolio default rates to changes in macroeconomic factors to obtain a stressed position for the credit portfolios. Loss given default (LGD) is stressed based on a range of factors, including property price movements.

As highlighted on page 23, Political and economic risk is an emerging risk for the Group with specific focus on the heightened inflationary pressures prevalent in the UK. This includes the future impact of macroeconomic variables which are used in the calculation of the Group's modelled ECL output. Further detail on the Group's use of macroeconomic variables in the year can be found on pages 45 to 46.

Mitigation

The Group maintains a dynamic approach to credit management and takes necessary steps if individual issues are identified or if credit performance has, or is expected to, deteriorate due to borrower, economic or sector-specific weaknesses.

The mitigation of credit risk within the Group is achieved through approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios, and independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover product, industry, geographic concentrations and delinquency trends.

There is regular analysis of the borrowers' ability to meet their interest and capital repayment obligations with early support and mitigation steps taken where required. Credit risk mitigation is also supported, in part, by obtaining collateral and corporate and personal guarantees where appropriate.

Further details on the Group's mitigating measures can be found on page 154 of the 2021 Annual Report and Accounts.

Monitoring

Credit policies and procedures, which are subject to ongoing review, are documented and disseminated in a form that supports the credit operations of the Group.

- Credit Risk Committee: The Credit Risk Committee ensures that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio. It also determines and approves strategies to adjust the portfolio to react to changes in market conditions including the response to COVID-19, customer resilience, debt affordability concerns and climate risk.
- RAS: Measures are reported monthly to ensure adherence to appetite. Formal annual review is carried out to ensure that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.
- Risk concentration: Concentration of risk is managed by counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single counterparty. Concentrations are also considered through the RAS process, focusing particularly on the external environment, outlook and comparison against market benchmarks.
- Single large exposure excesses: Excesses on exposures under the delegated commitment authority of the Transactional Credit Committee are reported to the committee where the amount of excess is >£250k (senior Business Credit Risk personnel have delegated authority to manage excesses <£250k). All excess reports include a proposed route to remediation. Exposures are also managed in accordance with the large exposure reporting requirements of the CRR.
- Portfolio Monitoring: Continuous monitoring of the portfolio composition and performance is undertaken through weekly and monthly reviews.

Forbearance

Forbearance is considered to exist where customers are experiencing or about to experience financial difficulty and the Group grants a concession on a non-commercial basis. The Group's forbearance policies and definitions comply with the guidance established by the European Banking Authority (EBA) for financial reporting. Forbearance concessions include the granting of more favourable terms and conditions than those provided either at drawdown of the facility, or which would not ordinarily be available to other customers with a similar risk profile. Forbearance parameters are regularly reviewed and refined as necessary to ensure they are consistent with the latest industry guidance and prevailing practice, as well as ensuring that they adequately capture and reflect the most recent customer behaviours and market conditions. The Group also complies with the regulations of the Debt Respite Scheme which was implemented in 2021. The Debt Respite Scheme provides eligible individuals in England and Wales with problem debt the right to legal protection from their creditors, including almost all enforcement action, during a period of 'breathing space'. The Scheme, also referred to as the 'Breathing Space Regulations', does not apply to mortgages, except for arrears which are uncapitalised at the date of the application under the Breathing Space Regulations. In Scotland, eligible individuals are afforded similar legal protection under the Bankruptcy (Scotland) Act 2016.

Measuring credit risk within our asset portfolios

The Group adopts two approaches to the measurement of credit risk under IFRS 9:

Individually assessed
A charge is taken to the income statement when an individually assessed provision has been recognised or a direct write-off has been applied to an asset balance. These loans will be classified as Stage 3.

Collectively assessed
The Group uses a combination of strategies and statistical models that utilise internal and external data to measure the exposure to credit risk within the portfolios and to calculate the level of ECL. This is supplemented by management judgement in the form of PMAs where necessary.

At each reporting date, the Group assesses financial assets measured at amortised cost, as well as loan commitments and financial guarantees not measured at FVTPL, for impairment. The impairment loss allowance is calculated using an ECL methodology and reflects: (i) an unbiased and probability weighted amount; (ii) the time value of money which discounts the impairment loss; and (iii) reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

The ECL is then calculated as either 12 month (Stage 1) or lifetime (Stage 2 or Stage 3). Stage 2 is applied where there has been a SICR since origination. Stage 3 applies where the loan is credit impaired or is a purchased or originated credit impaired asset (POCI).

ECLs under IFRS 9 use economic forecasts, models and judgement to provide a forward-looking assessment of the required provisions. Adjustments have been made to address known limitations in the Group’s models or data; this includes early adoption of a limited number of enhancements to better reflect the Group's assessment of risk. Due to the current economic conditions, government and Group interventions to support customers, reliance has not solely been placed upon modelled outcomes alone. Following detailed analysis, expert credit judgement has been applied, resulting in additional adjustments to ensure the ECL calculation reflects the full set of plausible circumstances including data limitations, customer support measures, and the rapidly changing nature customer behaviours.

Further details on the Group’s measurement of credit risk can be found on page 157 of the 2021 Annual Report and Accounts.

Both the accounting and regulatory definitions of default are aligned with default being triggered at 90 DPD, with the exception of the heritage Virgin Money mortgage models which apply a 180 DPD regulatory default trigger under existing approved permissions. The definition of default will be fully aligned to 90 DPD when the regulatory models are updated in line with hybrid model adoption.

The Group aligns the regulatory cure periods for forborne exposures in its IFRS 9 staging criteria at a minimum period of either 24 (performing) or 36 (non-performing) months depending on the forbearance programme utilised. Where exposures are classified as Stages 2 or 3 as a result of not being in a forbearance programme, these can cure when the relevant staging trigger is removed and no longer applicable.

Group credit risk exposures

The Group is exposed to credit risk across all of its financial asset classes, however its principal exposure to credit risk arises on customer lending balances. Given the relative significance of customer lending exposures to the Group's overall credit risk position, the disclosures that follow are focused principally on customer lending.

The Group is also exposed to credit risk on its other banking and treasury-related activities. It holds £9.5bn of cash and balances with central banks and £0.9bn due from other banks at amortised cost (30 September 2021: £9.7bn), with a further £4.4bn of financial assets at fair value through other comprehensive income (FVOCI). £7.7bn of cash is held with the BoE (30 September 2021: £7.9bn), and balances with other banks and financial assets at FVOCI are primarily held with senior investment grade counterparties. All other banking and treasury related financial assets are classed as Stage 1 with no material ECL provision held.

Maximum exposure to credit risk on financial assets, contingent liabilities and credit-related commitments

The following tables show the levels of concentration of the Group's loans and advances, contingent liabilities and credit-related commitments:

31 March 2022	**Gross loans and advances to customers £m**	**Contingent liabilities and credit-related commitments £m**	**Total £m**
Mortgages	**58,130**	**3,575**	**61,705**
Unsecured	**6,151**	**10,856**	**17,007**
Business	**8,136**	**3,895**	**12,031**
Total	**72,417**	**18,326**	**90,743**
Impairment provisions held on credit exposures(1)	**(472)**	**(7)**	**(479)**
Fair value hedge adjustment	**(532)**	**-**	**(532)**
Maximum credit risk exposure on lending assets	**71,413**	**18,319**	**89,732**
Cash and balances with central banks			**9,527**
Financial assets at FVOCI			**4,423**
Due from other banks			**858**
Other financial assets at fair value			**120**
Derivative financial assets			**189**
Maximum credit risk exposure on all financial assets(2)			**104,849**

30 September 2021			
Mortgage	58,441	2,845	61,286
Unsecured	5,770	10,507	16,277
Business	8,340	3,769	12,109
Total	72,551	17,121	89,672
Impairment provisions held on credit exposures(1)	(496)	(8)	(504)
Fair value hedge adjustment	(179)	-	(179)
Maximum credit risk exposure on lending assets	71,876	17,113	88,989
Cash and balances with central banks			9,711
Financial assets at FVOCI			4,352
Due from other banks			800
Other financial assets at fair value			153
Derivative financial assets			140
Maximum credit risk exposure on all financial assets(2)			104,145

(1) The total ECL provision covers both on and off-balance sheet exposures which are reflected in notes 3.1 and 3.7 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.

(2) Unless otherwise noted, the amount that best represents the maximum credit exposure at the reporting date is the carrying value of the financial asset.

Credit risk

Key credit metrics

	6 months to 31 Mar 2022 £m	12 months to 30 Sep 2021 £m	6 months to 31 Mar 2021 £m
Impairment charge/(credit) on credit exposures			
Mortgage lending	**(21)**	(44)	(1)
Unsecured lending	**69**	(32)	27
Business lending	**(27)**	(55)	12
Total Group impairment charge/(credit)	**21**	(131)	38
Underlying impairment charge/(credit)(1) to average customer loans (cost of risk)	**0.06%**	(0.18)%	0.11%

	6 months to 31 Mar 2022	12 months to 30 Sep 2021
Key asset quality ratios		
% Loans in Stage 2	**11.03%**	14.09%
% Loans in Stage 3	**1.40%**	1.32%
Total book coverage(2)	**0.66%**	0.70%
Stage 2 coverage(2)	**3.15%**	3.02%
Stage 3 coverage(2)	**10.70%**	9.59%

(1) Inclusive of gains/losses on assets held at fair value and elements of fraud loss.
(2) This includes the government-backed portfolio of BBLs, Recovery Loan Scheme (RLS), Coronavirus business interruption loan scheme (CBILs) and Coronavirus large business interruption loan scheme (CLBILs).

As the world marked the 2nd anniversary of COVID-19 in this six-month period, the Group has continued to maintain a stable lending book with gross lending to customers of £72.4bn at 31 March 2022 (30 September 2021: £72.6bn). Modest growth in the Unsecured lending book was offset by a reduction in Mortgages and Business lending as consumer spending activity increased with the easing of restrictions, whilst more significant investment remained subdued.

Asset quality was robust in the period; most of the key asset quality ratios remained stable, with only the credit card portfolio showing signs of a shift in quality commensurate with the Group's risk appetite in this market. The overall stability has been influenced by the extended period of customer support measures provided by the government in response to COVID-19 and prudent action taken by customers, combined with the Group's controlled risk appetite and continued focus on continued customer support and responsible lending decisions.

The UK Government's approach for 'living with COVID' offers some economic optimism. However, other significant economic and geopolitical factors have the potential to impact the short to medium term performance of the portfolio, with the most significant of these anticipated to be the wide range of cost of living pressures. The Group continues to support customers through this challenging period.

While the lending portfolio continues to show resilience, the Group impairment provision has nevertheless been determined against a backdrop of global macro-economic uncertainty following the Russian invasion of Ukraine and a UK-wide cost of living crisis. It is likely that certain borrowers will suffer increased stress from the cost of living crisis, as such a temporary affordability stress PMA of £26m has been introduced across the retail portfolios. The Group has also retained certain other PMAs where deemed appropriate, following a full review in the period; further detail on the nature of each PMA is provided in the respective product performance section on the following pages.

Taking all these factors into account, the Group has recorded a total impairment provision of £479m at 31 March 2022, reflecting a small reduction of £25m from £504m at 30 September 2021 and a corresponding reduction in coverage from 70bps to 66bps. Within this, the modelled provision is broadly stable at £300m (30 September 2021: £297m) as the releases in the Mortgage and Business portfolios due to the more favourable macroeconomic inputs have been offset by growth in Unsecured lending. PMAs have reduced in the period to £179m (30 September 2021: £207m).

The net reduction in provision has been offset by individually assessed impairments of £53m in the period (12 months to 30 September 2021: £79m), resulting in a net charge to the income statement of £21m (12 months to 30 September 2021: net credit of £131m), and an associated cost of risk for the period of 6bps (12 months to 30 September 2021: (18)bps).

Credit quality of loans and advances

The following tables outline the staging profile of the Group's customer lending portfolios which is key to understanding their asset quality.

Gross loans and advances[(1)] ECL and coverage

	Mortgages		Unsecured Cards		Unsecured Loans and Overdrafts		Unsecured Combined		Business[(2)]		Total	
31 March 2022	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Stage 1	**52,217**	**89.8%**	**4,484**	**87.6%**	**947**	**91.4%**	**5,431**	**88.3%**	**5,819**	**71.5%**	**63,467**	**87.6%**
Stage 2 – total	**5,283**	**9.1%**	**566**	**11.1%**	**75**	**7.3%**	**641**	**10.4%**	**2,020**	**24.8%**	**7,944**	**11.0%**
Stage 2: 0 DPD	**4,997**	**8.6%**	**530**	**10.3%**	**67**	**6.5%**	**597**	**9.6%**	**1,976**	**24.2%**	**7,570**	**10.4%**
Stage 2: < 30 DPD	**154**	**0.3%**	**18**	**0.4%**	**4**	**0.4%**	**22**	**0.4%**	**14**	**0.2%**	**190**	**0.3%**
Stage 2: > 30 DPD	**132**	**0.2%**	**18**	**0.4%**	**4**	**0.4%**	**22**	**0.4%**	**30**	**0.4%**	**184**	**0.3%**
Stage 3[(3)]	**630**	**1.1%**	**66**	**1.3%**	**13**	**1.3%**	**79**	**1.3%**	**297**	**3.7%**	**1,006**	**1.4%**
	58,130	**100.0%**	**5,116**	**100.0%**	**1,035**	**100.0%**	**6,151**	**100.0%**	**8,136**	**100.0%**	**72,417**	**100.0%**
ECLs												
Stage 1	**7**	**10.6%**	**57**	**28.6%**	**9**	**40.9%**	**66**	**29.9%**	**58**	**30.2%**	**131**	**27.3%**
Stage 2 – total	**44**	**66.7%**	**109**	**54.8%**	**7**	**31.8%**	**116**	**52.5%**	**87**	**45.3%**	**247**	**51.6%**
Stage 2: 0 DPD	**42**	**63.7%**	**89**	**44.8%**	**4**	**18.2%**	**93**	**42.1%**	**87**	**45.3%**	**222**	**46.4%**
Stage 2: < 30 DPD	**1**	**1.5%**	**9**	**4.5%**	**1**	**4.5%**	**10**	**4.5%**	**-**	**-**	**11**	**2.3%**
Stage 2: > 30 DPD	**1**	**1.5%**	**11**	**5.5%**	**2**	**9.1%**	**13**	**5.9%**	**-**	**-**	**14**	**2.9%**
Stage 3[(3)]	**15**	**22.7%**	**33**	**16.6%**	**6**	**27.3%**	**39**	**17.6%**	**47**	**24.5%**	**101**	**21.1%**
	66	**100.0%**	**199**	**100.0%**	**22**	**100.0%**	**221**	**100.0%**	**192**	**100.0%**	**479**	**100.0%**
Coverage												
Stage 1		**0.01%**		**1.39%**		**1.28%**		**1.38%**		**1.09%**		**0.21%**
Stage 2 – total		**0.81%**		**20.88%**		**12.66%**		**20.07%**		**4.64%**		**3.15%**
Stage 2: 0 DPD		**0.82%**		**18.21%**		**7.86%**		**17.24%**		**4.65%**		**2.95%**
Stage 2: < 30 DPD		**0.59%**		**55.83%**		**34.47%**		**52.38%**		**3.91%**		**6.34%**
Stage 2: > 30 DPD		**0.97%**		**62.82%**		**64.47%**		**63.09%**		**1.86%**		**8.86%**
Stage 3[(3)]		**2.40%**		**53.97%**		**66.74%**		**55.83%**		**19.93%**		**10.70%**
		0.11%		**4.22%**		**2.97%**		**4.04%**		**2.58%**		**0.66%**

	Mortgages		Unsecured Cards		Unsecured Loans and Overdrafts		Unsecured Combined		Business[(2)]		Total	
30 September 2021	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	50,596	86.6%	4,100	88.1%	1,048	94.0%	5,148	89.2%	5,672	68.0%	61,416	84.7%
Stage 2 – total	7,192	12.3%	497	10.7%	56	5.0%	553	9.6%	2,433	29.2%	10,178	14.0%
Stage 2: 0 DPD	6,918	11.9%	466	10.1%	46	4.2%	512	8.9%	2,390	28.7%	9,820	13.5%
Stage 2: < 30 DPD	128	0.2%	16	0.3%	5	0.4%	21	0.4%	25	0.3%	174	0.2%
Stage 2: > 30 DPD	146	0.2%	15	0.3%	5	0.4%	20	0.3%	18	0.2%	184	0.3%
Stage 3[(3)]	653	1.1%	58	1.2%	11	1.0%	69	1.2%	235	2.8%	957	1.3%
	58,441	100.0%	4,655	100.0%	1,115	100.0%	5,770	100.0%	8,340	100.0%	72,551	100.0%
ECLs												
Stage 1	4	4.6%	32	20.0%	9	26.5%	41	21.1%	66	29.6%	111	22.0%
Stage 2 – total	64	73.6%	99	61.9%	19	55.9%	118	60.9%	120	53.8%	302	59.9%
Stage 2: 0 DPD	61	70.2%	82	51.3%	13	38.2%	95	49.0%	120	53.8%	276	54.8%
Stage 2: < 30 DPD	1	1.1%	8	5.0%	2	5.9%	10	5.2%	-	-	11	2.1%
Stage 2: > 30 DPD	2	2.3%	9	5.6%	4	11.8%	13	6.7%	-	-	15	3.0%
Stage 3[(3)]	19	21.8%	29	18.1%	6	17.6%	35	18.0%	37	16.6%	91	18.1%
	87	100.0%	160	100.0%	34	100.0%	194	100.0%	223	100.0%	504	100.0%
Coverage												
Stage 1		0.01%		0.85%		1.13%		0.91%		1.35%		0.18%
Stage 2 – total		0.88%		22.12%		42.01%		23.92%		5.43%		3.02%
Stage 2: 0 DPD		0.87%		19.51%		33.66%		20.64%		5.48%		2.84%
Stage 2: < 30 DPD		0.85%		58.36%		52.88%		57.27%		1.51%		6.90%
Stage 2: > 30 DPD		1.36%		64.46%		99.65%		73.48%		2.85%		8.99%
Stage 3[(3)]		2.81%		54.13%		64.02%		55.65%		17.31%		9.59%
		0.15%		3.79%		3.86%		3.80%		3.06%		0.70%

(1) Excludes loans designated at fair value through profit or loss (FVTPL), balances due from customers on acceptances, accrued interest and deferred and unamortised fee income.
(2) Business and total coverage ratio excludes the guaranteed element of government-backed loans.
(3) Stage 3 includes POCI for gross loans and advances of £63m for Mortgages and £1m for Unsecured (30 September 2021: £67m and £2m respectively); and ECL of (£1m) for Mortgages and (£2m) for Unsecured (30 September 2021: £Nil and (£2m) respectively). Nil for business in both periods.

Credit quality of loans and advances (continued)

Stage 2 balances

There can be a number of reasons that require a financial asset to be subject to a Stage 2 lifetime ECL calculation other than reaching the 30 DPD backstop. The following table highlights the relevant trigger point leading to a financial asset being classed as Stage 2:

	Mortgages		Unsecured Cards		Unsecured Loans & Overdrafts		Unsecured Combined		Business		Total	
31 March 2022	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD deterioration	**4,243**	**80%**	**341**	**60%**	**15**	**20%**	**356**	**56%**	**1,162**	**58%**	**5,761**	**73%**
Forbearance	**151**	**3%**	**8**	**1%**	**56**	**75%**	**64**	**10%**	**255**	**13%**	**470**	**6%**
AFD or Watch List[1]	**7**	**0%**	**-**	**-**	**-**	**-**	**-**	**-**	**573**	**28%**	**580**	**7%**
> 30 DPD	**132**	**2%**	**18**	**3%**	**4**	**5%**	**22**	**3%**	**30**	**1%**	**184**	**2%**
Other[2]	**750**	**15%**	**199**	**36%**	**-**	**-**	**199**	**31%**	**-**	**-**	**949**	**12%**
	5,283	**100%**	**566**	**100%**	**75**	**100%**	**641**	**100%**	**2,020**	**100%**	**7,944**	**100%**
ECLs												
PD deterioration	**27**	**61%**	**55**	**50%**	**3**	**42%**	**58**	**51%**	**40**	**46%**	**125**	**51%**
Forbearance	**7**	**16%**	**2**	**2%**	**2**	**29%**	**4**	**3%**	**17**	**20%**	**28**	**11%**
AFD or Watch List[1]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**	**34%**	**30**	**12%**
> 30 DPD	**1**	**2%**	**11**	**10%**	**2**	**29%**	**13**	**11%**	**-**	**-**	**14**	**6%**
Other[2]	**9**	**21%**	**41**	**38%**	**-**	**-**	**41**	**35%**	**-**	**-**	**50**	**20%**
	44	**100%**	**109**	**100%**	**7**	**100%**	**116**	**100%**	**87**	**100%**	**247**	**100%**

	Mortgages		Unsecured Cards		Unsecured Loans & Overdrafts		Unsecured Combined		Business		Total	
30 September 2021	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	6,100	85%	300	60%	48	86%	348	63%	1,445	59%	7,893	78%
Forbearance	176	2%	11	2%	3	5%	14	3%	374	15%	564	6%
AFD or Watch List[1]	11	-	-	-	-	-	-	-	584	24%	595	6%
> 30 DPD	146	2%	15	3%	5	9%	20	4%	18	1%	184	2%
Other[2]	759	11%	171	35%	-	-	171	30%	12	1%	942	8%
	7,192	100%	497	100%	56	100%	553	100%	2,433	100%	10,178	100%
ECLs												
PD deterioration	43	67%	51	52%	14	74%	65	55%	52	43%	160	53%
Forbearance	4	6%	2	2%	1	5%	3	3%	24	20%	31	10%
AFD or Watch List[1]	-	-	-	-	-	-	-	-	32	27%	32	11%
> 30 DPD	2	3%	9	9%	4	21%	13	11%	-	-	15	5%
Other[2]	15	24%	37	37%	-	-	37	31%	12	10%	64	21%
	64	100%	99	100%	19	100%	118	100%	120	100%	302	100%

(1) Approaching Financial Difficulty (AFD) and Watch markers are early warning indicators of Business customers who may be approaching financial difficulties. If these indicators are not reversed, they may lead to a requirement for more proactive management by the Group.

(2) Other includes high indebtedness, county court judgement and previous arrears, as well as a number of smaller value drivers.

Credit risk exposure, by internal PD rating, by IFRS 9 stage allocation

The distribution of the Group's credit exposures by internal PD rating is analysed below:

		Gross carrying value							
		Stage 1		Stage 2		Stage 3[(1)]		Total	
31 March 2022		**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Mortgages	**PD range**								
Strong	0 – 0.74	**48,626**	**93%**	**3,582**	**68%**	**-**	**-**	**52,208**	**90%**
Good	0.75 – 2.49	**3,292**	**6%**	**1,004**	**19%**	**-**	**-**	**4,296**	**7%**
Satisfactory	2.50 – 99.99	**299**	**1%**	**697**	**13%**	**-**	**-**	**996**	**2%**
Default	100	**-**	**-**	**-**	**-**	**630**	**100%**	**630**	**1%**
Total		**52,217**	**100%**	**5,283**	**100%**	**630**	**100%**	**58,130**	**100%**
Unsecured									
Strong	0 – 2.49	**4,937**	**91%**	**112**	**18%**	**-**	**-**	**5,049**	**82%**
Good	2.50 – 9.99	**486**	**9%**	**348**	**54%**	**-**	**-**	**834**	**14%**
Satisfactory	10.00 – 99.99	**8**	**-**	**181**	**28%**	**-**	**-**	**189**	**3%**
Default	100	**-**	**-**	**-**	**-**	**79**	**100%**	**79**	**1%**
Total		**5,431**	**100%**	**641**	**100%**	**79**	**100%**	**6,151**	**100%**
Business									
Strong	0 – 0.74	**4,616**	**79%**	**1,010**	**50%**	**-**	**-**	**5,626**	**69%**
Good	0.75 – 9.99	**1,203**	**21%**	**947**	**47%**	**-**	**-**	**2,150**	**26%**
Satisfactory	10.00 – 99.99	**-**	**-**	**63**	**3%**	**-**	**-**	**63**	**1%**
Default	100	**-**	**-**	**-**	**-**	**297**	**100%**	**297**	**4%**
Total		**5,819**	**100%**	**2,020**	**100%**	**297**	**100%**	**8,136**	**100%**

		Gross carrying value							
		Stage 1		Stage 2		Stage 3[(1)]		Total	
30 September 2021		£m	%	£m	%	£m	%	£m	%
Mortgages	PD range								
Strong	0 – 0.74	46,984	93%	4,555	63%	-	-	51,539	88%
Good	0.75 – 2.49	3,313	6%	1,888	27%	-	-	5,201	9%
Satisfactory	2.50 – 99.99	299	1%	749	10%	-	-	1,048	2%
Default	100	-	-	-	-	653	100%	653	1%
Total		50,596	100%	7,192	100%	653	100%	58,441	100%
Unsecured									
Strong	0 – 2.49	4,730	92%	85	15%	-	-	4,815	83%
Good	2.50 – 9.99	411	8%	325	59%	-	-	736	13%
Satisfactory	10.00 – 99.99	7	-	143	26%	-	-	150	3%
Default	100	-	-	-	-	69	100%	69	1%
Total		5,148	100%	553	100%	69	100%	5,770	100%
Business									
Strong	0 – 0.74	3,298	58%	505	21%	-	-	3,803	46%
Good	0.75 – 9.99	2,374	42%	1,823	75%	-	-	4,197	50%
Satisfactory	10.00 – 99.99	-	-	105	4%	-	-	105	1%
Default	100	-	-	-	-	235	100%	235	3%
Total		5,672	100%	2,433	100%	235	100%	8,340	100%

(1) Stage 3 includes POCI of £63m for Mortgages and £1m for Unsecured (30 September 2021: £67m and £2m respectively). Nil for Business in both periods.

Movement in gross lending balances and impairment loss allowance

The following table shows the changes in the loss allowance and gross carrying value of the portfolios. Values are calculated using the individual customer account balances, and the stage allocation is taken as at the end of each month. The monthly position of each account is aggregated to report a net closing position for the period, thereby incorporating all movements an account has made during the year.

	Stage 1		**Stage 2**		**Stage 3[(1)]**			
31 March 2022	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2021	**61,416**	**111**	**10,178**	**302**	**957**	**91**	**72,551**	**504**
Transfers from Stage 1 to Stage 2	**(4,614)**	**(17)**	**4,587**	**142**	**-**	**-**	**(27)**	**125**
Transfers from Stage 2 to Stage 1	**5,287**	**12**	**(5,316)**	**(79)**	**-**	**-**	**(29)**	**(67)**
Transfers to Stage 3	**(48)**	**-**	**(286)**	**(43)**	**332**	**49**	**(2)**	**6**
Transfers from Stage 3	**24**	**-**	**66**	**5**	**(91)**	**(6)**	**(1)**	**(1)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased[(2)]	**10,741**	**114**	**719**	**85**	**113**	**21**	**11,573**	**220**
Repayments and other movements[(3)]	**(1,129)**	**4**	**(284)**	**(51)**	**(43)**	**(5)**	**(1,456)**	**(52)**
Repaid or derecognised	**(8,210)**	**(93)**	**(1,720)**	**(114)**	**(200)**	**(55)**	**(10,130)**	**(262)**
Write-offs	**-**	**-**	**-**	**-**	**(62)**	**(62)**	**(62)**	**(62)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**15**	**-**	**15**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**53**	**-**	**53**
Closing balance at 31 March 2022	**63,467**	**131**	**7,944**	**247**	**1,006**	**101**	**72,417**	**479**

	Stage 1		Stage 2		Stage 3[(1)]			
30 September 2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2020	59,219	136	12,844	465	862	134	72,925	735
Transfers from Stage 1 to Stage 2	(11,131)	(62)	11,076	389	-	-	(55)	327
Transfers from Stage 2 to Stage 1	10,397	58	(10,484)	(284)	-	-	(87)	(226)
Transfers to Stage 3	(115)	(1)	(623)	(91)	734	108	(4)	16
Transfers from Stage 3	33	-	217	23	(253)	(25)	(3)	(2)
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased[(2)]	19,276	206	1,621	158	132	22	21,029	386
Repayments and other movements[(3)]	(2,955)	(59)	(933)	(140)	(16)	(72)	(3,904)	(271)
Repaid or derecognised	(13,308)	(167)	(3,540)	(218)	(376)	(55)	(17,224)	(440)
Write-offs	-	-	-	-	(126)	(126)	(126)	(126)
Cash recoveries	-	-	-	-	-	26	-	26
Individually assessed impairment charge	-	-	-	-	-	79	-	79
Closing balance at 30 September 2021	61,416	111	10,178	302	957	91	72,551	504

(1) Stage 3 includes POCI for gross loans and advances of £63m for Mortgages and £1m for Unsecured (30 September 2021: £67m and £2m respectively), and ECL of (£1m) for Mortgages and (£2m) for Unsecured (30 September 2021: £Nil and (£2m) respectively). Nil for Business in both periods.
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

In addition to the above on-balance sheet position, the Group also has £18,326m of loan commitments and financial guarantee contracts (30 September 2021: £17,121m) of which £17,067m (93.1%) are held under Stage 1, £1,222m in Stage 2 and £37m in Stage 3 (30 September 2021: £16,001m (93.5%) held under Stage 1, £1,090m in Stage 2 and £30m in Stage 3). ECLs of £7m (30 September 2021: £8m) are included in the table above, of which £1m (30 September 2021: £2m) is held under Stage 1 and £6m (30 September 2021: £6m) under Stage 2.

The overall improvement in staging evidenced in a shift from Stage 2 to Stage 1 in the period is driven by a variety of factors at portfolio levels, with further detail provided in the following portfolio performance pages. Customer repayment activity remains strong as customers deleverage as much as possible. Low levels of default are evident across the portfolio.

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £4.2m (30 September 2021: £2.6m). The Group has not purchased any lending assets in the year (30 September 2021: none). Further information on staging profile is provided at a portfolio level in the respective portfolio performance section on the following pages.

Mortgage credit performance

The table below presents key information which is important for understanding the asset quality of the Group's Mortgage portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Mortgage portfolio

31 March 2022	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	35,005	14	10	24	34,981	0.06%	**56.1%**
Residential – interest only	8,296	4	1	5	8,291	0.07%	**46.6%**
Buy-to-let (BTL)	14,829	6	31	37	14,792	0.24%	**54.4%**
Total Mortgage portfolio	58,130	24	42	66	58,064	0.11%	**54.4%**
30 September 2021							
Residential – capital repayment	35,192	19	21	40	35,152	0.10%	57.2%
Residential – interest only	8,341	6	2	8	8,333	0.10%	47.2%
BTL	14,908	8	31	39	14,869	0.24%	54.8%
Total Mortgage portfolio	58,441	33	54	87	58,354	0.15%	55.3%

Mortgage lending reduced in the period to £58.1bn (30 September 2021: £58.4bn) as the Group continued to prioritise margin in an increasingly competitive environment.

The portfolio continues to evidence strong underlying credit performance with 90% of loans held in Stage 1 (30 September 2021: 87%). During the period the volume and value of loans in forbearance has reduced to 4,771 / £662m from 6,743/£830m, this followed the completion of the probation period for some loans and a return to fully performing status. The relative stability in the book and low LTV mix of the portfolio mirrors conditions in the UK housing market, which continues to perform well following the easing of government restrictions applied during the COVID-19 pandemic. The weighted average LTV remains low at 54.4% (30 September 2021: 55.3%). Further detail on LTV bandings and forbearance measures is provided on the following pages.

The stability in the Mortgage portfolio metrics together with the improvement in the applicable economic metrics, such as house prices, have contributed to a release of £9m in the modelled ECL, taking the provision to £24m at 31 March 2022 (from £33m at 30 September 2021). Total PMAs have similarly reduced in the period, as detailed below, from £54m at 30 September 2021 to £42m at 31 March 2022. The total Mortgage portfolio impairment provision therefore stands at £66m at 31 March 2022, down from £87m at 30 September 2021.

The Group has maintained PMA's for the Mortgage portfolio to address the ongoing heightened uncertainty over anticipated future default rates across the portfolio. The most significant of these is the PMA on the BTL portfolio which has held broadly stable at £29m (30 September 2021: £28m) and reflects that the Group continues to take a cautious approach on this component of the loan book. A PMA for payment holidays, which was introduced in 2020 at the outset of the COVID-19 pandemic, has continued to unwind as customers have successfully exited payment holiday arrangements and returned to normal repayment patterns; this PMA is now £8m at 31 March 2022 (30 September 2021: £22m). In the current environment, with high inflation and rising fuel costs, the Group considers that there is likely to be a group of borrowers who will suffer increased stress from the heightened cost of living pressure; a £3m temporary affordability stress PMA has been introduced in response to this. Other small PMAs totalling £2m (30 September 2021: £4m) have also been retained.

The release of modelled provisions and previously applied PMAs is the primary driver of the impairment credit in the income statement of £21m (12 months to 30 September 2021: credit of £44m) and associated cost of risk of (7)bps for the period (12 months to 30 September 2021: (7)bps). The total book coverage has reduced to 11bps but remains substantially higher than the pre-pandemic level of 7bps.

Mortgage credit performance (continued)

Collateral

The quality of the Group's Mortgage portfolio can be considered in terms of the average LTV of the portfolio and the staging of the portfolio, as set out in the following tables:

Average LTV of Mortgage portfolio by staging

31 March 2022	**Stage 1**			**Stage 2**			**Stage 3(2)**			**Total**		
	Loans		**ECL**	**Loans**		**ECL**	**Loans**		**ECL**	**Loans**		**ECL**
LTV(1)	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**	**%**	**£m**	**£m**	**%**	**£m**
Less than 50%	**20,451**	**39%**	**2**	**2,186**	**42%**	**6**	**282**	**44%**	**2**	**22,919**	**40%**	**10**
50% to 75%	**25,753**	**49%**	**3**	**2,700**	**51%**	**26**	**258**	**41%**	**3**	**28,711**	**50%**	**32**
76% to 80%	**3,450**	**7%**	**1**	**262**	**5%**	**3**	**37**	**6%**	**1**	**3,749**	**6%**	**5**
81% to 85%	**1,843**	**4%**	**1**	**111**	**2%**	**2**	**16**	**3%**	**1**	**1,970**	**3%**	**4**
86% to 90%	**523**	**1%**	**-**	**14**	**-**	**-**	**10**	**2%**	**1**	**547**	**1%**	**1**
91% to 95%	**151**	**-**	**-**	**2**	**-**	**1**	**8**	**1%**	**-**	**161**	**-**	**1**
96% to 100%	**11**	**-**	**-**	**3**	**-**	**-**	**4**	**1%**	**-**	**18**	**-**	**-**
Greater than 100%	**35**	**-**	**-**	**5**	**-**	**6**	**15**	**2%**	**7**	**55**	**-**	**13**
	52,217	**100%**	**7**	**5,283**	**100%**	**44**	**630**	**100%**	**15**	**58,130**	**100%**	**66**

30 September 2021	Stage 1			Stage 2			Stage 3(2)			Total		
	Loans		ECL	Loans		ECL	Loans		ECL	Loans		ECL
LTV(1)	£m	%	£m	£m	%	£m	£m	%	£m	£m	%	£m
Less than 50%	19,907	39%	1	2,268	32%	6	274	41%	2	22,449	38%	9
50% to 75%	24,383	49%	1	3,648	51%	37	256	39%	3	28,287	49%	41
76% to 80%	3,123	6%	1	729	10%	9	49	8%	1	3,901	7%	11
81% to 85%	2,346	5%	1	426	6%	6	30	5%	1	2,802	5%	8
86% to 90%	715	1%	-	102	1%	3	17	3%	1	834	1%	4
91% to 95%	79	-	-	7	-	-	8	1%	1	94	-	1
96% to 100%	8	-	-	2	-	-	5	1%	-	15	-	-
Greater than 100%	35	-	-	10	-	3	14	2%	10	59	-	13
	50,596	100%	4	7,192	100%	64	653	100%	19	58,441	100%	87

(1) LTV of the Mortgage portfolio is defined as Mortgage portfolio weighted by balance. The portfolio is indexed using the MIAC Acadametrics indices at a given date.
(2) Stage 3 includes £63m (30 September 2021: £67m) of POCI gross loans and advances.

The Mortgage portfolio remains highly secured with 88.8% of mortgages, by loan value, having an indexed LTV of less than 75% (30 September 2021: 86.8%), and an average portfolio LTV of 54.4% (30 September 2021: 55.3%). New lending has increased the value of loans in stage 1 with an LTV between 91% to 95%. The increase from September 2021 is exacerbated as higher LTV lending was not available during most of the lockdown period.

Mortgage credit performance (continued)

Forbearance

A key indicator of underlying Mortgage portfolio health is the level of loans subject to forbearance measures. Forbearance can occur when a customer experiences longer-term financial difficulty. In such circumstances, the Group considers the customer's individual circumstances, uses judgement in assessing whether SICR, an impairment or default event has occurred, and then applies tailored forbearance measures in order to support the customer in a route to stability. Customers may potentially be subject to more than one forbearance strategy at any one time where this is considered to be the most appropriate course of action.

The table below summarises the level of forbearance in respect of the Group's Mortgage portfolio at each balance sheet date. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
31 March 2022	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Formal arrangements	**1,160**	**137**	**0.24**	**5.8**	**4.26**
Temporary arrangements	**571**	**86**	**0.14**	**2.7**	**3.12**
Payment arrangement	**1,222**	**128**	**0.22**	**0.9**	**0.67**
Payment holiday	**281**	**27**	**0.05**	**0.1**	**0.28**
Interest only conversion	**1,322**	**264**	**0.46**	**0.9**	**0.33**
Term extension	**91**	**8**	**0.01**	**-**	**0.46**
Other	**17**	**2**	**-**	**-**	**0.60**
Legal	**107**	**10**	**0.02**	**0.2**	**2.11**
Total mortgage forbearance	**4,771**	**662**	**1.14**	**10.6**	**1.60**
30 September 2021					
Formal arrangements	1,115	133	0.23	4.9	3.66
Temporary arrangements	675	100	0.17	6.8	6.81
Payment arrangement	1,865	176	0.30	2.3	1.30
Payment holiday	1,436	123	0.21	0.5	0.41
Interest only conversion	1,390	273	0.47	1.3	0.47
Term extension	127	12	0.02	0.1	0.57
Other	19	2	0.01	-	0.68
Legal	116	11	0.02	0.3	3.09
Total mortgage forbearance	6,743	830	1.43	16.2	1.95

As at 31 March 2022, forbearance totalled £662m (4,771 customers), a decrease from the 30 September 2021 position of £830m (6,743 customers). This represents 1.14% of total mortgage balances (30 September 2021: 1.43%) with the decrease primarily driven by loans exiting the reporting probation period.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In the 6 months to 31 March 2022, there were 28 repossessions of which 6 were voluntary (2021 Full year: 33 including 13 voluntary). The key driver of the increase was the removal of the possession moratorium, part of the government's measures to support borrowers throughout COVID-19, part way through 2021 rather than a change in policy as the Group remains committed to supporting the customer and place the right outcome for them at the centre of the strategy.

Mortgage credit performance (continued)

IFRS 9 staging

The Group closely monitors the staging profile of the Mortgage portfolio over time which can be indicative of general trends in book health. Movements in the staging profile of the portfolio in the current and prior year are presented in the tables below.

31 March 2022	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2021	**50,596**	**4**	**7,192**	**64**	**653**	**19**	**58,441**	**87**
Transfers from Stage 1 to Stage 2	**(3,376)**	**(1)**	**3,354**	**29**	**-**	**-**	**(22)**	**28**
Transfers from Stage 2 to Stage 1	**4,643**	**2**	**(4,657)**	**(34)**	**-**	**-**	**(14)**	**(32)**
Transfers to Stage 3	**(24)**	**-**	**(102)**	**(3)**	**125**	**2**	**(1)**	**(1)**
Transfers from Stage 3	**15**	**-**	**52**	**3**	**(68)**	**(2)**	**(1)**	**1**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased[2]	**4,409**	**-**	**8**	**-**	**1**	**-**	**4,418**	**-**
Repayments and other movements[3]	**(893)**	**2**	**(78)**	**(9)**	**(10)**	**(2)**	**(981)**	**(9)**
Repaid or derecognised	**(3,153)**	**-**	**(486)**	**(6)**	**(70)**	**(1)**	**(3,709)**	**(7)**
Write-offs	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**(1)**	**(1)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Closing balance at 31 March 2022	**52,217**	**7**	**5,283**	**44**	**630**	**15**	**58,130**	**66**

30 September 2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2020	49,970	14	8,166	95	516	22	58,652	131
Transfers from Stage 1 to Stage 2	(8,172)	(4)	8,140	113	-	-	(32)	109
Transfers from Stage 2 to Stage 1	7,479	5	(7,522)	(101)	-	-	(43)	(96)
Transfers to Stage 3	(64)	-	(367)	(9)	429	7	(2)	(2)
Transfers from Stage 3	24	-	108	13	(137)	(4)	(5)	9
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased[2]	9,662	2	76	2	2	-	9,740	4
Repayments and other movements[3]	(2,141)	(11)	(405)	(36)	(38)	(3)	(2,584)	(50)
Repaid or derecognised	(6,162)	(2)	(1,004)	(13)	(118)	(2)	(7,284)	(17)
Write-offs	-	-	-	-	(1)	(1)	(1)	(1)
Cash recoveries	-	-	-	-	-	1	-	1
Individually assessed impairment charge	-	-	-	-	-	(1)	-	(1)
Closing balance at 30 September 2021	50,596	4	7,192	64	653	19	58,441	87

(1) Stage 3 includes POCI for gross loans and advances of £63m (30 September 2021: £67m), and ECL of (£1m) (30 September 2021: £Nil).

(2) Includes assets where the term has ended, and a new facility has been provided.

(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

Despite the economic uncertainty, the Mortgage portfolio continues to evidence strong performance and benefits from relatively positive economic forecasts. This has combined to increase the level of mortgage lending classed as Stage 1 to 89.8% (30 September 2021: 86.6%), with a corresponding decrease of assets in Stage 2 from 12.3% to 9.1%. Of the Stage 2 category, 8.6% is not yet past due at the balance sheet date (30 September 2021: 11.8% not yet past due) but fall into the Stage 2 classification due predominantly to PD deterioration. The proportion of mortgages classified as Stage 3 remains modest at 1.1% (30 September 2021: 1.1%).

These conditions have also contributed to an increase in assets classed as 'Strong' from 88% at 30 September 2021 to 90% at 31 March 2022, with over 97% (30 September 2021: 97%) of the Mortgage portfolio now classed as 'Good' or 'Strong'.

The sustained quality in the internal PD ratings and high quality of collateral underpinning the book are key factors supporting the lower level of provision coverage required.

Unsecured credit performance

The table below presents key information which is important for understanding the asset quality of the Group's Unsecured lending portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Unsecured credit portfolio

31 March 2022	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	5,116	163	36	199	4,917	4.22%
Personal loans	1,002	11	8	19	983	2.59%
Overdrafts	33	3	-	3	30	11.96%
Total Unsecured lending portfolio	6,151	177	44	221	5,930	4.04%
30 September 2021						
Credit cards	4,655	142	18	160	4,495	3.79%
Personal loans	1,082	14	17	31	1,051	3.57%
Overdrafts	33	3	-	3	30	11.14%
Total Unsecured lending portfolio	5,770	159	35	194	5,576	3.80%

Unsecured gross lending balances increased to £6.2bn (30 September 2021: £5.8bn) led by above-market growth in credit card balances.

The quality of the Unsecured portfolio remains high, with 98.0% of the portfolio in Stage 1 or Stage 2 not past due (30 September 2021: 98.1%), and a modest 1.3% in Stage 3 (30 September 2021: 1.2%). The level of customers in forbearance remains very low at 1.14% of the portfolio at 31 March 2022 (30 September 2021: 1.30%).

There has been an overall increase in the modelled provision to £177m (30 September 2021: £159m), primarily in the Cards portfolio where a number of drivers, such as a widening of risk appetite, an increase in early stage arrears and a return to more normalised customer indebtedness model inputs, combine to more than offset the positive impact of the current macroeconomics. PMAs continue to feature in this portfolio. As with the Mortgage portfolio, a COVID-19 related payment holiday PMA was established at the outset of the pandemic and, similar to Mortgages, has unwound as anticipated to £3m at 31 March 2022 (30 September 2021: £12m). Other PMAs introduced in prior periods to address specific factors not currently incorporated in the models have remained relatively stable at £18m (30 September 2021: £23m). Lastly, a new affordability PMA of £23m (£22m for Cards, £1m for Personal loans) has been introduced in the period to address the short-term risk of customers suffering increased stress from the heightened cost of living pressure in the current environment. The overall PMAs in the unsecured portfolio have therefore increased to £44m at 31 March 2022 (30 September 2021: £35m).

As a result, the total ECL provision at 31 March 2022 is £221m (30 September 2021: £194m), giving rise to an impairment charge in the income statement in the period of £69m (12 months to 30 September 2021: credit of £32m).

The coverage ratio for the whole Unsecured portfolio has increased to 404bps (30 September 2021: 380bps), driven mainly by the increase in coverage for our high-quality credit card portfolio focused on more affluent customers, which has increased from coverage of 379bps at 30 September 2021 to 422bps at 31 March 2022 and reflects a considered shift in risk appetite.

Unsecured credit performance (continued)

Forbearance

The table below summarises the level of forbearance in respect of the Group's Unsecured lending portfolios at each balance sheet date. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
31 March 2022	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Credit cards arrangements	**14,247**	**58**	**1.22%**	**22.7**	**39.32%**
Loans arrangements	**836**	**5**	**0.65%**	**2.1**	**44.54%**
Overdraft arrangement	**73**	**-**	**0.04%**	**-**	**38.52%**
Total Unsecured lending forbearance	**15,156**	**63**	**1.14%**	**24.8**	**39.61%**
30 September 2021					
Credit cards arrangements	14,151	60	1.39%	23.9	39.88%
Loans arrangements	1,174	6	0.78%	3.3	49.61%
Overdraft arrangement	280	1	2.55%	0.4	51.89%
Total Unsecured lending forbearance	15,605	67	1.30%	27.6	40.98%

The full credit card forbearance portfolio is now reported in line with the EBA financial reporting guidelines and accounts are retained in the reporting for a minimum of 2 years, previously 1 year for some heritage VM accounts, and the prior period shown has been restated to the current methodology. All portfolios are now reported on the EBA financial reporting requirements.

As at 31 March 2022, credit cards forbearance totalled £58m (14,247 accounts), a decrease from the 30 September 2021 position of £60m (14,151 accounts). This represents 1.22% of total credit cards balances (30 September 2021: 1.39%). The level of impairment coverage on forborne loans is stable at 39.3% from 39.9% at 30 September 2021. Limited forbearance is exercised in relation to Personal loans and overdrafts, with a modest reduction to £5m (0.63%) of the loans and overdrafts portfolio from £7m (0.85%) at 30 September 2021.

Unsecured credit performance (continued)

IFRS 9 staging

The Group closely monitors the staging profile of its Unsecured lending portfolio over time which can be indicative of general trends in book health. Movements in the staging profile of the portfolio in the current and prior year are presented in the tables below:

31 March 2022	**Stage 1 Gross loans £m**	**Stage 1 ECL £m**	**Stage 2 Gross loans £m**	**Stage 2 ECL £m**	**Stage 3[(1)] Gross loans £m**	**Stage 3[(1)] ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2021	**5,148**	**41**	**553**	**118**	**69**	**35**	**5,770**	**194**
Transfers from Stage 1 to Stage 2	**(468)**	**(10)**	**468**	**94**	**-**	**-**	**-**	**84**
Transfers from Stage 2 to Stage 1	**232**	**6**	**(242)**	**(31)**	**-**	**-**	**(10)**	**(25)**
Transfers to Stage 3	**(9)**	**-**	**(57)**	**(35)**	**68**	**42**	**2**	**7**
Transfers from Stage 3	**1**	**-**	**1**	**1**	**(3)**	**(3)**	**(1)**	**(2)**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased[(2)]	**994**	**12**	**11**	**4**	**6**	**5**	**1,011**	**21**
Repayments and other movements[(3)]	**(142)**	**24**	**(66)**	**(26)**	**(1)**	**(1)**	**(209)**	**(3)**
Repaid or derecognised	**(325)**	**(7)**	**(27)**	**(9)**	**(6)**	**(38)**	**(358)**	**(54)**
Write-offs	**-**	**-**	**-**	**-**	**(54)**	**(54)**	**(54)**	**(54)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**12**	**-**	**12**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**41**	**-**	**41**
Closing balance at 31 March 2022	**5,431**	**66**	**641**	**116**	**79**	**39**	**6,151**	**221**

30 September 2021	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[(1)] Gross loans £m	Stage 3[(1)] ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2020	4,660	70	823	194	67	37	5,550	301
Transfers from Stage 1 to Stage 2	(954)	(32)	951	209	-	-	(3)	177
Transfers from Stage 2 to Stage 1	859	21	(890)	(113)	-	-	(31)	(92)
Transfers to Stage 3	(19)	(1)	(100)	(68)	119	80	-	11
Transfers from Stage 3	2	-	3	2	(5)	(5)	-	(3)
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased[(2)]	1,319	17	38	6	1	-	1,358	23
Repayments and other movements[(3)]	(493)	(28)	(217)	(98)	15	(52)	(695)	(178)
Repaid or derecognised	(226)	(6)	(55)	(14)	(29)	(25)	(310)	(45)
Write-offs	-	-	-	-	(99)	(99)	(99)	(99)
Cash recoveries	-	-	-	-	-	24	-	24
Individually assessed impairment charge	-	-	-	-	-	75	-	75
Closing balance at 30 September 2021	5,148	41	553	118	69	35	5,770	194

(1) Stage 3 includes POCI for gross loans and advances of £1m (30 September 2021: £2m), and ECL of (£2m) (30 September 2021: (£2m)).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

The balance of unsecured lending in Stage 2 increased by 0.8% to 10.4% (30 September 2021: 9.6%), driven primarily by a conscious widening of risk appetite, an increase in early stage arrears and a return to more normalised customer indebtedness model inputs from that seen from the cyclical lows during lockdown. This resulted in a corresponding reduction in Stage 1 from 89.1% to 88.2% while Stage 3 remains modest at 1.3% (30 September 2021: 1.2%).

The short-term risk on credit performance attributable to the cost of living crisis has the potential to affect customers currently in Stage 1 and may lead to increased levels of arrears and defaults. The affordability PMA of £23m has been established to mitigate this risk on the book.

Business credit performance

The table below presents key information which is important for understanding the asset quality of the Group's Business lending portfolio and should be read in conjunction with the supplementary data presented in the following pages of this section.

Breakdown of Business credit portfolio

31 March 2022	Gross lending £m	Government[(1)] £m	Total gross £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage[(2)] %
Agriculture	1,323	72	1,395	6	5	11	1,384	0.80%
Business services	864	305	1,169	25	22	47	1,122	4.65%
Commercial Real Estate	612	10	622	2	1	3	619	0.58%
Government, health and education	1,032	64	1,096	8	11	19	1,077	1.75%
Hospitality	580	92	672	4	6	10	662	1.69%
Manufacturing	589	127	716	22	15	37	679	5.48%
Resources	106	8	114	2	3	5	109	4.34%
Retail and wholesale trade	634	222	856	12	12	24	832	3.41%
Transport and storage	280	72	352	4	3	7	345	2.13%
Other	930	214	1,144	14	15	29	1,115	3.04%
Total Business portfolio	6,950	1,186	8,136	99	93	192	7,944	2.58%
30 September 2021								
Agriculture	1,361	80	1,441	7	5	12	1,429	0.89%
Business services	943	337	1,280	21	27	48	1,232	4.82%
Commercial Real Estate	667	13	680	4	3	7	673	1.00%
Government, health and education	1,031	73	1,104	7	10	17	1,087	1.62%
Hospitality	563	105	668	6	7	13	655	2.29%
Manufacturing	556	144	700	22	21	43	657	6.93%
Resources	95	8	103	3	4	7	96	6.85%
Retail and wholesale trade	623	248	871	14	14	28	843	4.13%
Transport and storage	300	80	380	4	4	8	372	2.50%
Other	883	230	1,113	17	23	40	1,073	4.42%
Total Business portfolio	7,022	1,318	8,340	105	118	223	8,117	3.06%

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme (BBLS), CBILS, CLBILS and RLS. When onboarding, some new borrowers for BBLS loans were coded as business services; a portion of these may be reclassified over time. This excludes £38m (30 September 2021: £Nil) of guarantee claim funds received from British Business Bank (BBB).
(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.

Business credit performance (continued)

Gross Business lending reduced to £8.1bn (30 September 2021: £8.3bn) principally driven by reductions in government-guaranteed lending schemes as borrowers continued to repay balances following the expiry of the 1-year interest free period. Excluding the government lending, balances were broadly stable given generally subdued market activity, with signs of growth in Q2 in line with broader economic recovery and improved business confidence. Growth is targeted to sectors and sub sectors where we have well established expertise.

There has been no deterioration in asset quality metrics across the portfolio and, as yet, no significant increase in specific provision recognition. The lending book continues to be biased away from sectors likely to experience more disruption from higher cost of living such as hospitality and retail, and towards sectors expected to be resilient, such as agriculture and health and social care. However, there are many external risks which could develop in 2022 including geopolitical, general inflationary pressures, interest rate rises, ongoing supply chain distribution and labour market disruption, in addition to our customers' increased debt burden and fatigue from crisis management.

The pressure on cash flow is expected to be a notable challenge in 2022 compared to 2021 when the positive impact of government and other support provided some breathing space. Repayments on government support loans, together with deferred HMRC and other creditor payments, are now due, albeit Time to Pay and Pay as You Grow schemes can provide assistance.

The stable economic conditions experienced to date result in an increase in the proportion of loans in Stage 1 from 68.0% at 30 September 2021 to 71.5% at 31 March 2022. Total balances in Stage 1 and Stage 2 not past due is c.£7.8bn representing 95.8% of the portfolio (30 September 2021: £8.1bn representing 96.7% of the portfolio). Of the Stage 2 loans, 95% were rated 'Strong' or 'Good' (30 September 2021: 96%). Stage 3 loans remain modest at 3.7%. Government interventions, including the ongoing loan schemes, continue to result in a reduced requirement for granting of forbearance; low levels were maintained with only 5.33% of the total portfolio being forborne at 31 March 2022 (30 September 2021: 5.82%).

The refreshed macroeconomic scenarios resulted in a small reduction of £6m in modelled provisions to £99m. At 30 September 2021, the Group recognised PMAs for Sector stress (£80m) and PD neutralisation (£34m) together with other minor factors (£4m); each of these PMAs has been reviewed in the current period. While the removal of all practical COVID-19 restrictions is seen as a move away from the downside impact of the pandemic and is a rationale for a reduction in some sector stress, more recent geopolitical events in Ukraine and the widely publicised cost of living crisis in the UK contribute to ongoing uncertainty over the impact that these broader economic conditions could have on UK businesses. As a result, the same sectors have been reviewed and there is only a modest release of £3m to the Sector Stress PMA which is now £77m at 31 March 2022. The PD neutralisation PMA introduced in 2021 has been retained, however the methodology has been updated to be anchored to a pre-COVID PD of 2.01%, resulting in a provision release of £21m and a PMA of £13m at 31 March 2022 The other small PMAs are broadly unchanged at £3m. This results in an overall provision of £192m (30 September 2021: £223m) which has driven an impairment credit in the income statement of £27m in the period (12 months to 30 September 2021: credit of £55m).

Overall, portfolio coverage remains prudent at 258bps (30 September 2021: 306bps), reflecting the high quality of the portfolio and little evidence of deterioration in asset quality to date. A cautious position has been maintained through the targeted approach to PMAs, with coverage over those sectors most susceptible to further economic shocks remaining elevated.

Business credit performance (continued)

Forbearance

Forbearance is considered to exist where customers are experiencing or about to experience financial difficulty and the Group grants a concession on a non-commercial basis. The Group reports business forbearance at a customer level and at a value which incorporates all facilities and the related impairment allowance, irrespective of whether each individual facility is subject to forbearance. Authority to grant forbearance measures for business customers is held by the Group's Strategic Business Services unit and is exercised, where appropriate, on the basis of detailed consideration of the customer's financial position and prospects.

Where a customer is part of a larger group, forbearance is exercised and reported across the Group at the individual entity level. Where modification of the terms and conditions of an exposure meeting the criteria for classification as forbearance results in derecognition of loans and advances from the balance sheet and the recognition of a new exposure, the new exposure shall be treated as forborne.

The tables below summarise the total number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
31 March 2022	**Number of loans**	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Term extension	**175**	**161**	**1.88**	**9.2**	**5.72**
Payment holiday	**79**	**145**	**1.68**	**24.3**	**16.81**
Reduction in contracted interest rate	**2**	**1**	**0.01**	**-**	**1.37**
Alternative forms of payment	**-**	**-**	**-**	**-**	**-**
Debt forgiveness	**1**	**-**	**-**	**-**	**1.60**
Refinancing	**11**	**3**	**0.04**	**0.3**	**8.24**
Covenant breach/reset/waiver	**48**	**148**	**1.72**	**8.5**	**5.74**
Total Business forbearance	**316**	**458**	**5.33**	**42.3**	**9.24**
30 September 2021					
Term extension	188	196	2.27%	10.2	5.19%
Payment holiday	86	130	1.51%	17.6	13.48%
Reduction in contracted interest rate	1	1	0.01%	-	0.02%
Alternative forms of payment	1	13	0.15%	5.6	43.14%
Debt forgiveness	2	4	0.04%	-	0.67%
Refinancing	10	3	0.04%	0.2	7.21%
Covenant breach/reset/waiver	44	155	1.80%	8.2	5.27%
Total Business forbearance	332	502	5.82%	41.8	8.31%

Business portfolio forbearance has reduced from £502m (332 customers) at 30 September 2021 to £458m (316 customers) at 31 March 2022. Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. Changes to forbearance levels reflect the proportion of business customers requiring support on non-standard terms and evidencing financial difficulty. As a percentage of the Business portfolio, forborne balances have reduced to 5.33% (30 September 2021: 5.82%) with impairment coverage slightly increasing to 9.24% (30 September 2021: 8.31%). The majority of forbearance arrangements relate to term extensions allowing customers a longer term to repay their obligations in full than initially contracted.

Customers within the forbearance portfolio have received £31m of COVID-19 related support loans: £5m CLBIL, £16m CBIL, £5m BBL and £5m RLS.

The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance as at 31 March 2022 is £5.3m (30 September 2021: £5.3m), representing 0.06% of the total business portfolio (30 September 2021: 0.06%). The credit risk adjustment on these amounts totalled £0.1m (30 September 2021: £0.1m). Coverage is 2.38% (30 September 2021: 2.32%).

Business credit performance (continued)

IFRS 9 staging

The Group closely monitors the staging profile of its Business lending portfolio over time which can be indicative of general trends in book health. Movements in the staging profile of the portfolio in the current and prior year are presented in the tables below.

	Stage 1		Stage 2		Stage 3		Total	
31 March 2022	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**
Opening balance at 1 October 2021	**5,672**	**66**	**2,433**	**120**	**235**	**37**	**8,340**	**223**
Transfers from Stage 1 to Stage 2	**(770)**	**(6)**	**765**	**19**	**-**	**-**	**(5)**	**13**
Transfers from Stage 2 to Stage 1	**412**	**4**	**(417)**	**(14)**	**-**	**-**	**(5)**	**(10)**
Transfers to Stage 3	**(15)**	**-**	**(127)**	**(5)**	**139**	**5**	**(3)**	**-**
Transfers from Stage 3	**8**	**-**	**13**	**1**	**(20)**	**(1)**	**1**	**-**
Changes to model methodology	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
New assets originated or purchased(1)	**5,338**	**102**	**700**	**81**	**106**	**16**	**6,144**	**199**
Repayments and other movements(2)	**(94)**	**(22)**	**(140)**	**(16)**	**(32)**	**(2)**	**(266)**	**(40)**
Repaid or derecognised	**(4,732)**	**(86)**	**(1,207)**	**(99)**	**(124)**	**(16)**	**(6,063)**	**(201)**
Write-offs	**-**	**-**	**-**	**-**	**(7)**	**(7)**	**(7)**	**(7)**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**12**	**-**	**12**
Closing balance at 31 March 2022	**5,819**	**58**	**2,020**	**87**	**297**	**47**	**8,136**	**192**

	Stage 1		Stage 2		Stage 3		Total	
30 September 2021	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2020	4,589	52	3,855	176	279	75	8,723	303
Transfers from Stage 1 to Stage 2	(2,005)	(26)	1,985	67	-	-	(20)	41
Transfers from Stage 2 to Stage 1	2,059	32	(2,072)	(70)	-	-	(13)	(38)
Transfers to Stage 3	(32)	-	(156)	(14)	186	21	(2)	7
Transfers from Stage 3	7	-	106	8	(111)	(16)	2	(8)
Changes to model methodology	-	-	-	-	-	-	-	-
New assets originated or purchased(1)	8,295	187	1,507	150	129	22	9,931	359
Repayments and other movements(2)	(321)	(20)	(311)	(6)	7	(17)	(625)	(43)
Repaid or derecognised	(6,920)	(159)	(2,481)	(191)	(229)	(28)	(9,630)	(378)
Write-offs	-	-	-	-	(26)	(26)	(26)	(26)
Cash recoveries	-	-	-	-	-	1	-	1
Individually assessed impairment charge	-	-	-	-	-	5	-	5
Closing balance at 30 September 2021	5,672	66	2,433	120	235	37	8,340	223

(1) Includes assets where the term has ended, and a new facility has been provided.

(2) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.

Despite the economic uncertainty, the level of Business lending classed as Stage 1 has remained relatively stable at 71.5% (30 September 2021: 68.0%), with a reduction in Stage 2 from 29.2% at 31 March 2022 to 24.8% at 30 September 2021. The proportion of the portfolio in Stage 2 does remain heightened, reflective of the Group's prudent approach to early deterioration and support measures such as forbearance. As at 31 March 2022, 58% of balances in Stage 2 are associated with a deterioration in PD (30 September 2021: 59%). Business loans in Stage 3 remain modest at 3.7% (30 September 2021: 2.8%).

The PDs for Business lending combine both internal ratings information and forward-looking economic forecasts. The material drivers of the PD and stage migrations in the period are the economic forecasts, rather than internal downgrades or the emergence of arrears or defaults. The proportion of assets classed as 'Strong' has increased to 69% (30 September 2021: 46%), with assets classed as 'Good' correspondingly decreasing to 26% (30 September 2021: 50%). 95% of the business portfolio is categorised as 'Strong' or 'Good' (30 September 2021: 96%).

Macroeconomic assumptions, scenarios and weightings

The Group's ECL allowance at 31 March 2022 was £479m (30 September 2021: £504m).

Macroeconomic assumptions

The Group engages OE to provide a wide range of future macroeconomic assumptions which are used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario. The Group has identified the following key macroeconomic drivers as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, inflation, house prices, base rates, and unemployment rates. The external data provided is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them. Further adjustments supplement the modelled output when it is considered that not all the risks identified in a product segment have been accurately reflected within the models or for other situations where it is not possible to provide a modelled outcome.

As the UK economy continues to recover from the impact of COVID-19, and the effect of the Omicron variant does seem to have been as profound as had been anticipated in Q4 2021, the outlook continues to be more optimistic than it was at this point in 2021 especially with the ending of self-isolation restrictions. Recent bank base rate rises, concerns over energy prices, the increase in national insurance contributions, and the headwinds from higher inflation will all have an impact on household incomes in 2022. The potential impact on the UK economy of the Russian invasion of Ukraine is uncertain at this time. Against this environment, the Group has continued to assess the possible IFRS 9 economic scenarios to select appropriate forecasts and weightings. The selection of scenarios and the appropriate weighting to apply are considered and debated by an internal review panel each quarter with final proposed recommendations for use in the IFRS 9 models made to the Asset and Liability Committee (ALCO) for formal approval. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenario	**31 Mar 2022 (%)**	30 Sept 2021 (%)
Upside	**10**	15
Base	**55**	50
Downside	**35**	35

The Group continued to select three scenarios with the largest weighting applied to the base scenario. In the current period, there is a 5% shift in the weightings from the Upside scenario towards the Base scenario, reflecting greater confidence in the Base scenario over the short term as a result of the updated macroeconomic assumptions. The Group are comfortable with the current weighting applied to the Downside scenario and see no compelling reasons why this should be adjusted at this time.

Upside (10%)(1)

- GDP increased sharply by 8.1% in the first quarter of 2022 (Q1 2022 v Q1 2021), before slowing down to a c.4.0% increase in each of the remaining quarters in 2022. Overall year-on-year growth in 2022 is forecast at 5.0% with a slight decrease to 4.4% in 2023 before reverting to more modest increases over the remainder of the forecast period.
- Inflation rises steeply and peaks at 7.8% in Q2 2022 from a low base of 0.6% at Q1 2021. This reverts back to sub 2.0% levels from Q1 2024 for much of the remaining forecast period.
- BoE base rate rises are anticipated throughout 2022 and are expected to continue through 2023 and into 2024, reaching 2.3% in Q1 2024. Base rate continues at that level for the remainder of the forecast period.
- HPI rises modestly in each quarter over the entire forecast period. Overall, HPI sees Q4 v Q4 growth of 9.7% in 2022 declining to 1.7% in 2023 before rising again to between 2.4% and 2.9% over the next three years.
- Unemployment peaks in Q1 2022, at 4.1%, and drops to 3.5% in Q4 2022. From then, there is no significant movement over the remaining forecast period, reaching 3.7% in Q1 2025 where it remains until the end of 2026.

Base (55%)

- GDP increases sharply by 8.1% in the first quarter of 2022 (Q1 2022 v Q1 2021) before contracting in Q2 2022, with overall year-on-year growth in 2022 forecast at 3.8%, and modestly falling to 2.6% in 2023. GDP settles over the remaining forecast period at between 1.7% and 1.9%.
- Inflation peaks at 7.5% in Q2 2022 before scaling back and reverting to under 2% in Q2 2023. This rises slightly and remains at 2% from Q4 2025 for the remaining forecast period.
- BoE base rate hits 1.2% in Q3 2022 and rise steadily over the forecast period reaching 1.7% in Q3 2025 and remaining there throughout 2026.
- HPI sees steady rises between Q1 2022 to Q4 2022 before modestly declining from then until Q2 2024 when it rebounds slowly in each quarter after this until the end of the forecast period. Overall, HPI sees Q4 v Q4 year-on-year growth of 5.4% in 2022 which regresses to (14.7%) in 2023 and remains negative until 2026 where it reverts to positive growth of 4.4%.
- Unemployment peaks at 4.1% in Q1 2022 and drops to 3.5% in Q3 2022. From then, there is no significant movement with unemployment averaging at 4% in 2022 and steadily declining and reaching 3.7% in 2025 and remaining there for 2026.

(1) The time periods referenced in this section relate to calendar years unless otherwise stated.

Macroeconomic assumptions (continued)

Downside (35%)

- GDP increases to 8.1% (Q1 2022 v Q1 2021) before turning negative for the three remaining quarters in 2022 to (3.7%) by the end of 2022 (Q4 2022 v Q4 2021) and remains sluggish over the remaining forecast period. The overall year-on-year negative growth of 0.3% in 2022 returns positive in 2024 at 1.2% and increases slightly over the next two years finishing at 1.9% in 2026.
- Inflation peaks at 6.4% in Q2 2022 before declining and turning negative in Q2 2023 and remains negative for the remainder of 2023. From there, inflation rises steadily each quarter reaching 2.3% in Q3 2025 before falling back again and finishing in Q4 2026 at 1.6%.
- The BoE base rate reaches 0.8% in Q2 2022 before steadily falling back to 0.3% in Q3 2023 where it is unchanged for the remaining forecast period.
- HPI falls steadily and deeply from Q1 2022 to Q1 2025 but then experiences modest increases in each quarter until the end of the forecast period but finishes well below the levels experienced in 2021. Overall, HPI sees a Q4 v Q4 decline of (5.5%) in 2022 worsening to (16.52%) by 2024 and not turning positive until 2026.
- Unemployment peaks at 6.6% in Q1 2024 and remains at over 6.0% for the remainder of the forecast period. Overall, unemployment averages at 5.6% in 2022 rising to 6.6% by 2024 before falling modestly to finish at 6.3% in 2026.

Five-year simple averages for the most sensitive inputs of unemployment, GDP and HPI

31 March 2022	Unemployment %	GDP %	HPI %
Upside	**3.7**	**3.1**	**3.9**
Base	**3.8**	**2.4**	**2.0**
Downside	**6.3**	**0.8**	**(6.9)**
30 September 2021			
Upside	3.9	4.6	4.6
Base	4.3	3.8	2.1
Downside	6.5	2.1	(5.8)

The use of estimates, judgements and sensitivity analysis

The following are the main areas where estimates and judgements are applied to the ECL calculation:

The use of estimates

Economic scenarios

The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings as highlighted above. The effect on the closing modelled provision of each portfolio as a result of applying a 100% weighting to each of the selected scenarios is shown below:

31 March 2022	**Probability Weighted[(1)] £m**	**Upside £m**	**Base £m**	**Downside £m**
Mortgages	**16**	**12**	**13**	**27**
Unsecured of which:	**178**	**174**	**173**	**187**
Cards	*163*	*161*	*160*	*170*
Personal loans and overdrafts	*15*	*13*	*13*	*17*
Business	**68**	**44**	**52**	**123**
Total	**262**	**230**	**238**	**337**

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £179m relative to PMAs (30 September 2021: £207m) and £39m of individually assessed provision (30 September 2021: £31m).

30 September 2021	Probability Weighted £m	Upside £m	Base £m	Downside £m
Mortgages	24	16	19	37
Unsecured of which:	159	155	155	167
Cards	*142*	*139*	*139*	*147*
Personal loans and overdrafts	*17*	*16*	*16*	*20*
Business	83	47	61	127
Total	266	218	235	331

One of the criteria for moving exposures between stages is the PD which incorporates macroeconomic factors. As a result, the stage allocation will be different in each scenario and so the probability weighted ECL cannot be recalculated using the scenario ECL provided and the scenario weightings.

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of PMAs, further detail of which can be found on page 49.

Within each portfolio, the following are the macroeconomic inputs which are more sensitive and therefore more likely to drive the move from Stage 1 to Stage 2 under a stress scenario:

Mortgages: Unemployment and HPI
Unsecured: Unemployment
Business: Unemployment, HPI, GDP and interest rates

In addition to assessing the ECL impact of applying a 100% weighting to each of the three chosen scenarios, the Group has also considered what the effect of changes to a few key economic inputs would make to the modelled ECL output.

The Group considers that the unemployment rate and HPI are the inputs that would have the most significant and sensitive ECL impact and has assessed how these would change the ECL across the relevant portfolios, with the reported output assessed against the base case. All changes have been implemented as immediate effects seen within the first year of the base case scenario, persisting throughout the scenario.

The use of estimates (continued)

The following table discloses the ECL impact of HPI changes on the Group's Mortgage and Business lending:

	31 Mar 2022 £m	30 Sept 2021 £m
Mortgages +10%	**(1)**	(2)
Business +10%	**(2)**	(2)
Mortgages -10%	**1**	3
Business -10%	**1**	3

Unemployment is a key input that affects all of the Group's lending categories and the following table highlights the ECL impact of a one percent change in the unemployment rate:

	31 Mar 2022 £m	30 Sept 2021 £m
Mortgages +1%	**1**	1
Unsecured +1%	**5**	4
Business +1%	**5**	6
Mortgages -1%	**-**	(1)
Unsecured -1%	**(5)**	(4)
Business -1%	**(3)**	(4)

Altering the basis of how the changes are reflected would produce different results, with a sharper rise or decline in unemployment having a much more material ECL impact.

While the above sensitivities provide a view of how the ECL would be impacted based on these single changes, such changes would not ordinarily occur in isolation and the economic inputs used are linked within each chosen scenario.

The use of judgement

SICR

Judgement is required in determining the point at which a SICR has occurred, as this is the point at which a 12-month ECL is replaced by a lifetime ECL. The Group has developed a series of triggers that indicate where a SICR has occurred when assessing exposures for the risk of default occurring at each reporting date compared to the risk at origination. There is no single factor that influences this decision, rather a combination of different criteria that enables the Group to make an assessment based on the quantitative and qualitative information available. This includes the impact of forward-looking macroeconomic factors but excludes the existence of any collateral implications.

Indicators of a SICR include deterioration of the residual lifetime PD by set thresholds which are unique to each product portfolio, non-default forbearance programmes, and watch list status. The Group adopts the backstop position that a SICR will have taken place when the financial asset reaches 30 DPD.

The Group does not have a set absolute threshold by which the PD would have to increase by in establishing that a SICR has occurred, and has implemented an approach with the required SICR threshold trigger varying on a portfolio and product basis according to the origination PD.

The use of judgement (continued)

Changes to the overall SICR thresholds can also impact staging, driving accounts into higher stages with the resultant impact on the ECL allowance:

	31 Mar 2022 **£m**	30 Sept 2021 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2(1)	**+5**	+6
A 10% movement in the credit card portfolio from Stage 1 to Stage 2(1)	**+76**	+69
A 10% movement in the business portfolio from Stage 1 to Stage 2(1)	**+13**	+13
A PD stress which increases PDs upwards by 20% for all portfolios	**+91**	+94

(1) The comparative has been restated in line with current year presentation.

Definition of default

The PD of a credit exposure is a key input to the measurement of the ECL allowance. Default under Stage 3 occurs when there is evidence that a customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The Group utilises the 90 DPD backstop for default purposes.

PMAs

At 31 March 2022, £179m of PMAs (30 September 2021: £207m) are included within the total ECL provision of £479m (30 September 2021: £504m).

These are management judgements which impact the ECL provision by increasing the collectively assessed modelled output where not all of the known risks identified in a particular product segment have been accurately reflected within the models and are described in more detail below:

Mortgages: as the impact of the wind-down in payment holidays recedes, a reduced adjustment is held for COVID-19 reasons. The Group continued to monitor the level of ECL held on BTL mortgages in the year due to uncertainty of the extended impact on landlords and that of their tenants. A new PMA is now held to reflect an impact on debt affordability as a result of rising energy prices and other inflationary effects.

Unsecured: as with Mortgages, reduced PMAs for the customer group who used payment holidays are held. This is more than offset with the new PMA for debt affordability and likely customers' reduced disposable incomes. As a result, PMAs rose as a proportion of ECLs for Unsecured lending.

Business: unlike Retail, the effects of the government measures put in place for businesses throughout COVID-19 are still thought to be a material dampening effect on the levels of insolvency and default compared to long-term UK trends, with concerns on how businesses will adapt once the economy fully reopens. The Group considers that certain sectors within its Business portfolio require additional ECL to more adequately reflect the strains observed and expected in those sectors that are not fully captured in the modelled output. This also includes a modest adjustment to address technical model corrections.

The use of judgement (continued)

The impact of PMAs on the Group's ECL allowance and coverage ratios is as follows:

	Mortgages	Unsecured	Business	Total
31 March 2022	£42m	£44m	£93m	£179m
% of total ECL	64%	20%	49%	37%
Coverage – total	0.11%	4.04%	2.58%	0.66%
Coverage – total ex PMAs	0.04%	3.25%	1.33%	0.42%
30 September 2021	£54m	£35m	£118m	£207m
% of total ECL	62%	18%	53%	41%
Coverage – total	0.15%	3.80%	3.06%	0.70%
Coverage – total ex PMAs	0.06%	3.11%	1.44%	0.41%

PMAs are primarily directed towards Stages 1 and 2 and are discussed in more detail in the divisional commentary pages.

The Group assesses and reviews the need for and quantification of PMAs on a quarterly basis, with the CFO recommending the level of PMAs on a divisional basis to the Board Audit Committee twice a year at each external reporting period. The Group has strengthened the governance around PMAs in the year with the Model Risk Oversight and Group Credit Oversight teams reviewing the methodology supporting material PMAs and presenting their findings to the Board Audit Committee.

In the absence of significant events that might impact ECLs going forward, the Group expects the current level of PMAs to materially reduce over the next 18-24 months.

Macroeconomic assumptions

Annual macroeconomic assumptions used over the five-year forecast period in the scenarios and their weighted averages are as follows:(1)

31 March 2022

Scenario	VMUK weighting	Economic measure(2)	2022 %	2023 %	2024 %	2025 %	2026 %
Upside	10%	Base rate	**1.0**	**1.9**	**2.3**	**2.3**	**2.3**
		Unemployment	**3.7**	**3.6**	**3.6**	**3.7**	**3.7**
		GDP	**5.0**	**4.4**	**2.4**	**2.0**	**1.7**
		Inflation	**6.5**	**3.0**	**1.2**	**1.6**	**2.2**
		HPI	**9.7**	**1.7**	**2.5**	**2.4**	**2.9**
Base	55%	Base rate	**0.9**	**1.3**	**1.4**	**1.6**	**1.7**
		Unemployment	**4.0**	**3.9**	**3.8**	**3.7**	**3.7**
		GDP	**3.8**	**2.6**	**1.9**	**1.8**	**1.7**
		Inflation	**6.2**	**2.0**	**1.1**	**1.8**	**2.0**
		HPI	**5.4**	**(0.9)**	**0.2**	**2.0**	**3.1**
Downside	35%	Base rate	**0.6**	**0.3**	**0.3**	**0.3**	**0.3**
		Unemployment	**5.6**	**6.5**	**6.6**	**6.5**	**6.3**
		GDP	**(0.3)**	**(0.2)**	**1.2**	**1.6**	**1.9**
		Inflation	**5.0**	**(0.1)**	**0.8**	**2.0**	**1.5**
		HPI	**(5.5)**	**(14.7)**	**(16.5)**	**(2.2)**	**4.4**
Weighted average		Base rate	**0.8**	**1.0**	**1.1**	**1.2**	**1.3**
		Unemployment	**4.5**	**4.8**	**4.7**	**4.7**	**4.6**
		GDP	**2.5**	**1.8**	**1.7**	**1.7**	**1.8**
		Inflation	**5.8**	**1.3**	**1.0**	**1.9**	**1.9**
		HPI	**2.0**	**(5.5)**	**(5.4)**	**0.6**	**3.6**

30 September 2021

Scenario	VMUK weighting	Economic measure(2)	2021 %	2022 %	2023 %	2024 %	2025 %
Upside	15%	Base rate	0.2	0.6	1.2	1.5	1.6
		Unemployment	4.3	3.8	3.9	3.8	3.6
		GDP	8.1	8.8	2.8	1.8	1.5
		Inflation	2.4	3.7	2.5	1.6	1.8
		HPI	8.2	0.8	5.2	5.2	3.6
Base	50%	Base rate	0.1	0.1	0.1	0.3	0.5
		Unemployment	4.8	4.6	4.3	4.0	3.9
		GDP	7.3	6.7	2.1	1.5	1.5
		Inflation	2.1	2.7	1.9	1.8	1.8
		HPI	5.0	(1.6)	0.6	2.7	3.9
Downside	35%	Base rate	0.0	(0.5)	(0.5)	(0.5)	(0.3)
		Unemployment	5.6	6.7	6.8	6.8	6.4
		GDP	4.4	2.4	1.1	1.0	1.7
		Inflation	1.5	0.7	0.8	2.2	1.7
		HPI	(2.9)	(15.2)	(12.1)	(3.5)	4.9
Weighted average		Base rate	0.1	0.0	0.1	0.2	0.4
		Unemployment	5.0	5.2	5.1	4.9	4.7
		GDP	6.4	5.5	1.9	1.4	1.6
		Inflation	2.0	2.1	1.6	1.9	1.8
		HPI	2.7	(6.0)	(3.2)	0.9	4.2

(1) Economic assumptions are provided by Oxford Economics and reported on a calendar year basis unless otherwise stated.
(2) The percentages shown for base rate, unemployment and inflation are averages. GDP is the year-on-year movement, with HPI the Q4 v Q4 movement.

Financial risk

Financial risk

Financial risk covers several categories of risk which impact the way in which the Group can support its customers in a safe and sound manner. They include capital risk, funding risk, liquidity risk, market risk and pension risk.

Capital risk

Capital is held by the Group to cover inherent risks in a normal and stressed operating environment, to protect unsecured creditors and investors and to support the Group's long-term strategy of pioneering growth. Capital risk is the risk that the Group has or forecasts insufficient capital and other loss-absorbing debt instruments to operate effectively, including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting its strategic goals.

Regulatory capital developments

The regulatory landscape for capital is subject to change, which can lead to uncertainty on eventual outcomes. In order to mitigate this risk, the Group actively monitors emerging regulatory change, assesses the impact and puts plans in place to address.

Impact of COVID-19 on regulatory capital developments

Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to compliance with updates to definition of default, mortgage Hybrid PD and LGD were extended and the Group no longer expects the adoption of hybrid mortgage models in FY22.

The Group continues to apply relevant relief measures introduced by regulatory and supervisory bodies to help address and alleviate various COVID-19 driven financial impacts. These include amendments to the CRR introduced by the 'Quick Fix' package in June 2020, which introduced a number of beneficial modifications including changes to IFRS 9 transitional arrangements for capital and the accelerated implementation of revised small or medium-sized enterprises (SME) supporting factors under CRR II.

UK Leverage Ratio Framework

In June 2021 the Financial Policy Committee (FPC) and PRA published consultations (Consultation Paper 14/21) on their proposed changes to the UK leverage ratio framework, with feedback and final policy published in October (Policy Statement 21/21). The changes, effective from 1 January 2022, simplify the framework with the Group being subject to the UK leverage ratio only, rather than the two leverage ratio definitions that currently exist. The Group exceeds the 3.25% leverage ratio requirements.

IRB approach to UK mortgage risk weights

In July 2021, the PRA issued a policy statement in response to a consultation process setting out proposals to introduce certain floors in respect of the IRB approach to UK mortgage risk weights. In response to the feedback the PRA received, including useful quantitative data that enabled the PRA to better gauge the distribution of risk weights across mortgage exposures, the PRA made two changes to the draft policy: (1) it will not introduce the proposed 7% minimum risk weight expectation on individual UK mortgage exposures; and (2) mortgage exposures classified as in default are excluded from the 10% minimum risk weight expectation which took effect in January 2022.

Instead, the PRA will consider the calibration of the incoming PD and LGD parameter floors for mortgages as part of the PRA's Basel 3.1 implementation.

UK implementation of Basel Standards

In July 2021, the PRA published Policy Statement 17/21 which provided feedback to Consultation Paper 5/21 with the same title: 'Implementation of Basel standards'; the subsequent publication of Policy Statement 22/21 in October contained final rules. The policy statements cover a range of areas including: definition of capital; market risk; collective investment undertakings; counterparty credit risk; operational risk; large exposures; LCR; net stable funding ratio; reporting; and disclosure. These standards became effective in the UK from 1 January 2022.

The Group has assessed itself as a 'Large' institution and in accordance with the criteria set out within Article 433a of the final PRA Rulebook Instrument introduced by PS22/21, will make enhanced interim Pillar 3 disclosures for the first time and will begin reporting quarterly Pillar 3 disclosures. The Pillar 3 disclosures at 31 March 2022 is expected to be published at the end of May and will be available at https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/.

Policy Statement 22/21 confirms the PRA's treatment to fully deduct software assets from CET1 capital, applicable from 1 January 2022. This is a reversal of the preferential treatment permitted under the CRR Quick Fix which came into force from December 2020 whereby the CET1 deduction was replaced with a simple approach based on a prudential amortisation of software assets calibrated over a maximum period of three years. The PRA's view is that intangible assets are not sufficiently loss absorbent on a going concern basis to warrant recognition as CET1 capital. The Group has applied the revised treatment required under Policy Statement 22/21 from 1 January 2022.

Regulatory capital developments (continued)

Basel 3.1
The Basel Committee published its final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new RWA output floor. There are a number of areas within Basel 3.1 subject to national discretion and choice. Taking into account the publicly announced implementation timetables in other major jurisdictions, and the need to provide firms with sufficient time to implement the final policies, the PRA's current intention is to release a Consultation Paper on UK implementation in the fourth quarter of 2022 with the proposal that these reforms will become effective on 1 January 2025. Uncertainties therefore remain for a number of topics and in response the Group has undertaken an assessment across a range of scenarios for potential outcomes to assist with planning.

Solvency Stress Test
The Group participated in the BoE UK-wide SST for the first time during 2021. Results from the stress tests are used by the FPC to assess the stress severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend. The BoE concluded that "the major UK banks are resilient", including VMUK.

Capital resources

The Group's capital position as at 31 March 2022 is summarised below:

Regulatory capital(1)	31 Mar 2022 £m	30 Sep 2021 £m
Statutory total equity	**5,568**	5,473
CET1 capital: Regulatory adjustments(2)		
Other equity instruments	**(697)**	(915)
Defined benefit pension fund assets	**(645)**	(551)
Prudent valuation adjustment	**(4)**	(5)
Intangible assets	**(329)**	(208)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability(3)	**(241)**	(258)
Cash flow hedge reserve	**(60)**	(10)
AT1 coupon accrual	**(14)**	(19)
Foreseeable dividend on ordinary shares	**(59)**	(14)
Excess expected losses	**(27)**	-
IFRS 9 transitional adjustments	**84**	134
Total regulatory adjustments to CET1	**(2,003)**	(1,857)
Total CET1 capital	**3,565**	3,616
AT1 capital		
AT1 capital instruments	**697**	697
Total AT1 capital	**697**	697
Total Tier 1 capital	**4,262**	4,313
Tier 2 capital		
Subordinated debt	**1,020**	1,019
Total Tier 2 capital	**1,020**	1,019
Total regulatory capital	**5,282**	5,332

(1) This table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis as implemented by the PRA.
(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.
(3) Comparative includes deferred tax on losses in relation to Virgin Money Unit Trust Managers Limited (UTM) which is proportionately consolidated under prudential rules.

Capital resources (continued)

Regulatory capital flow of funds[1]	31 Mar 2022 £m	30 Sep 2021 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,616**	3,271
Share capital and share premium	**3**	2
Retained earnings and other reserves (including special purpose entities)	**274**	449
Prudent valuation adjustment	**1**	1
Amendment to software asset deduction rules[3]	**(151)**	151
Intangible assets	**30**	118
Deferred tax asset relying on future profitability	**17**	(107)
Defined benefit pension fund assets	**(94)**	(81)
AT1 foreseeable distribution	**5**	2
Foreseeable dividend on ordinary shares	**(59)**	(14)
Excess expected losses	**(27)**	-
IFRS 9 transitional adjustments	**(50)**	(176)
Total CET1 capital	**3,565**	3,616
AT1 capital		
AT1 capital at 1 October	**697**	915
Less other equity instruments not qualifying as AT1	**-**	(218)
Total AT1 capital	**697**	697
Total Tier 1 capital	**4,262**	4,313
Tier 2 capital		
Tier 2 capital at 1 October	**1,019**	749
Capital instruments issued: subordinated debt	**-**	298
Capital instruments purchased: subordinated debt	**-**	(30)
Amortisation of issue costs	**1**	2
Tier 2 capital at 31 March	**1,020**	1,019
Total capital	**5,282**	5,332

(1) Data in the table is reported under CRD IV as implemented by the PRA on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
(3) At September 2021 regulatory rules incorporated the amendments introduced by the CRR Quick Fix in December 2020, which applied the CET1 software asset deduction on a prudential amortisation basis over a period of three years. This relief was removed by the PRA in January 2022.

The Group's CET1 capital reduced by £51m during the period, primarily due to the removal of the software asset relief in January 2022 which reduced capital resources by £151m. After this one off movement, the main movements arose from increases in retained earnings and other reserves of £274m (driven mainly by statutory profit after tax of £238m), reductions in the intangible assets balance of £30m and in the deferred tax recognised on tax losses carried forward of £17m. Retained earnings and other reserves movements also included an increase in the defined benefit fund pension asset of £94m, which has been deducted from capital resources. The reduction in IFRS 9 provisions recognised in the period together with a tapering of relief reduced the IFRS 9 transitional adjustments by £50m.

In November 2021, £218m of AT1 securities were redeemed in full; as this had already been announced at the year end these were already excluded from the AT1 capital so have had no impact on AT1 capital in the period.

Risk weighted assets

Minimum capital requirements	31 March 2022 Exposure £m	RWA £m	Minimum capital requirement £m	30 September 2021 Exposure £m	RWA £m	Minimum capital requirement £m
Retail mortgages	**61,605**	**10,023**	**802**	61,146	10,010	801
Business lending	**11,629**	**6,007**	**481**	11,670	6,040	483
Other retail lending	**16,934**	**4,602**	**368**	16,201	4,311	345
Other lending	**14,953**	**234**	**19**	15,467	326	26
Other[1]	**590**	**667**	**53**	765	856	69
Total credit risk RWA	**105,711**	**21,533**	**1,723**	105,249	21,543	1,724
Credit valuation adjustment		**61**	**5**		103	8
Operational risk		**2,481**	**198**		2,481	198
Counterparty credit risk		**109**	**9**		105	8
Total RWA	**105,711**	**24,184**	**1,935**	105,249	24,232	1,938

(1) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, prepayments, other debtors and deferred tax assets that are not deducted.

RWA movements

RWA movements	6 months to 31 March 2022 IRB RWA £m	STD RWA £m	Other[2] RWA £m	Total £m	Minimum Capital Required £m	6 months to 30 September 2021 IRB RWA £m	STD RWA £m	Other RWA £m	Total £m	Minimum Capital required £m
Opening RWA	**15,699**	**5,844**	**2,689**	**24,232**	**1,938**	15,710	5,581	2,861	24,152	1,932
Asset size	**(61)**	**315**	**-**	**254**	**20**	(455)	256	-	(199)	(16)
Asset quality	**(460)**	**(2)**	**-**	**(462)**	**(37)**	(133)	32	-	(101)	(8)
Model updates[1]	**470**	**-**	**-**	**470**	**38**	577	-	-	577	46
Methodology and policy	**-**	**(173)**	**(32)**	**(205)**	**(16)**	-	-	-	-	-
Other	**-**	**(99)**	**(6)**	**(105)**	**(8)**	-	(25)	(172)	(197)	(16)
Closing RWA	**15,648**	**5,885**	**2,651**	**24,184**	**1,935**	15,699	5,844	2,689	24,232	1,938

(1) Model updates include the mortgage quarterly PD calibrations.

(2) 'Other' includes operational risk, credit valuation adjustment and counterparty credit risk.

RWA stayed relatively stable in the period, reducing by £48m (0.2%) to £24,184m.

Increases in mortgage RWAs is primarily due to quarterly PD re-calibrations which have been largely offset by improvements in the quality of the book following increases to HPI, due to the continued uplift witnessed in market house prices.

In the table above, methodology and policy movement is largely driven by the removal of the £151m RWA uplift in relation to the CRR Quick Fix amendments in respect of intangible assets, which was removed by the PRA in January 2022.

Other standardised RWA movements mainly arose from reductions in cash balances held with other institutions in relation to issued covered bonds, as a direct result of changes in the structure of our covered bond programme.

The updates to IRB and other capital regulations implemented by the PRA from 1 January 2022 have had little to no impact on the RWA position of the group.

IFRS 9 transitional arrangements

This table shows a comparison of capital resources, requirements and ratios with and without the application of transitional arrangements for IFRS 9:

	31 March 2022 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,565**	**3,481**
Tier 1 capital	**4,262**	**4,178**
Total capital	**5,282**	**5,198**
RWA (amounts)		
Total RWA	**24,184**	**24,111**
Capital ratios		
CET1 (as a percentage of risk exposure amount)	**14.7%**	**14.4%**
Tier 1 (as a percentage of risk exposure amount)	**17.6%**	**17.3%**
Total capital (as a percentage of risk exposure amount)	**21.8%**	**21.6%**
Leverage ratio		
Leverage ratio total exposure measure	**83,509**	**83,425**
UK leverage ratio	**5.1%**	**5.0%**

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 100% in 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

At 31 March 2022, £84m of IFRS 9 transitional adjustments (30 September 2021: £134m) have been applied to the Group's capital position in accordance with CRR: £7m of static and £77m of dynamic adjustments (30 September 2021: £10m static and £124m dynamic).

Capital requirements

The Group measures the amount of capital it is required to hold by applying CRD IV as implemented in the UK by the PRA and supplemented through additional regulation under the PRA Rulebook. The table below summarises the amount of capital in relation to RWA the Group is currently required to hold, excluding any PRA Buffer.

	As at 31 March 2022	
Minimum requirements	**CET1**	**Total capital**
Pillar 1[(1)]	4.5%	8.0%
Pillar 2A	1.7%	3.1%
Total capital requirement	**6.2%**	**11.1%**
Capital conservation buffer	2.5%	2.5%
UK countercyclical capital buffer	0.0%	0.0%
Total (excluding PRA buffer)[(2)]	**8.7%**	**13.6%**

(1) The minimum amount of total capital under Pillar 1 of the regulatory framework is determined as 8% of RWA, of which at least 4.5% of RWA is required to be covered by CET1 capital.

(2) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer. A PRA buffer can consist of two components:
- a risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements; and
- a buffer relating to the results of the BoE's stress tests.

The Group continues to maintain a significant buffer of 6.0% (equivalent to c£1.5bn) over its CRD IV minimum CET1 requirement of 8.7%.

The Group's total capital Pillar 2A requirement has reduced from 3.9% at September 2021 to 3.1% at March 2022 following revisions made by the PRA during the year.

Capital requirements (continued)

The UK countercyclical capital buffer (CCyB) is dependent upon the BoE's view of credit conditions in the economy and will be set between 1% and 2% in a standard risk environment. As part of a package of measures to support the economy from the impact of COVID-19, the FPC announced a reduction in the UK CCyB to 0%. Subsequently in December 2021, the FPC announced the UK CCyB would increase to 1%. The increase to the CCyB has a twelve month implementation period, therefore will take effect at the end of 2022.

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 31 March 2022, the Company had accumulated distributable reserves of £1,024m (30 September 2021: £792m).

Dividend

The Board has recommended an interim dividend for the financial year ending 30 September 2022 of 2.5p per share. The Group will target a 30% full year dividend payout ratio and going forward the interim dividend is expected to represent around 1/3rd of the prior year's total dividend, beginning H1 2023. Dividends will be supplemented by buybacks, subject to ongoing assessment of surplus capital, market conditions and regulatory approval.

MREL

Under the Bank Recovery and Resolution Directive the Group is required to hold additional loss-absorbing instruments to support an effective resolution. The MREL establishes a minimum amount of equity and eligible debt to recapitalise the Group. An analysis of the Group's current MREL position is provided below:

	As at	
	31 Mar 2022	30 Sep 2021
	£m	£m
Total capital resources(1)	**5,282**	5,332
Eligible senior unsecured securities issued by Virgin Money UK PLC(2)	**2,395**	2,408
Total MREL resources	**7,677**	7,740
Risk-weighted assets	**24,184**	24,232
MREL Ratio	**31.7%**	31.9%

(1) This table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.
(2) Excludes instruments with less than one year to maturity.

During 2022, the Group is subject to an end-state MREL requirement of 22.2% of RWA, or 24.7% of RWA when including its combined buffer requirements.

The Group's IFRS 9 transitional MREL ratio is 31.7% as at 31 March 2022 (30 September 2021: 31.9%). This represents prudent headroom of 7.0% or c.£1.7bn over the Group's MREL requirement including buffers.

Leverage

Leverage ratio	**31 Mar 2022 £m**	30 Sep 2021 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,565**	3,616
AT1 capital	**697**	697
Total Tier 1	**4,262**	4,313
Exposures for the leverage ratio		
Total assets	**88,609**	89,100
Adjustment for off-balance sheet items	**3,000**	2,884
Adjustment for derivative financial instruments	**227**	91
Adjustment for securities financing transactions	**2,893**	2,235
Adjustment for qualifying central bank claims	**(9,180)**	(9,094)
Other adjustments	**(2,040)**	(1,801)
UK leverage ratio exposure(1)	**83,509**	83,415
CRD IV leverage ratio exposure(2)	**N/A**	84,306
CRD IV leverage ratio(2)	**N/A**	5.1%
UK leverage ratio(3)	**5.1%**	5.2%
Average UK leverage ratio exposure(4)	**82,695**	83,213
Average UK leverage ratio(4)	**4.9%**	4.7%

(1) As the UK leverage ratio is now the single leverage ratio exposure measure, the analysis of the CRD IV leverage ratio exposure has been replaced with the UK equivalent for this period and the comparative.

(2) From 1 January 2022, the CRD IV leverage ratio is no longer applicable to UK banks.

(3) IFRS 9 transitional capital arrangements have been applied to the leverage ratio calculation.

(4) The fully loaded average leverage exposure measure is based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items. The average leverage ratio is based on the average of the month end tier 1 capital position.

The UK leverage ratio framework is relevant to PRA regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. The Group exceeds this threshold and accordingly the average UK leverage ratio exposure and average UK leverage ratio are disclosed.

The PRA published its Policy Statement on the UK leverage ratio framework on 8 October 2021. The Policy Statement confirms that UK banks will be subject to a single UK leverage ratio exposure measure from 1 January 2022 meaning that the CRD IV leverage ratio is no longer applicable to UK banks.

The leverage ratio is monitored against a Board-approved RAS, with the responsibility for managing the ratio delegated to ALCO, which monitors it on a monthly basis.

The leverage ratio is the ratio of Tier 1 capital to total exposures, defined as:

- capital: Tier 1 capital defined on a CRD IV fully loaded and IFRS 9 transitional basis; and
- exposures: total on- and off-balance sheet exposures (subject to credit conversion factors) as defined in the delegated act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

Other regulatory adjustments consist of adjustments that are required under CRD IV to be deducted from Tier 1 capital. The removal of these from the exposure measure ensures consistency is maintained between the capital and exposure components of the ratio.

The Group's UK leverage ratio of 5.1% (30 September 2021: 5.2%) exceeds the UK minimum ratio of 3.25%.

The Group's leverage ratio buffer currently stands at 0%. Following the FPC's announced increase to the CCyB, the leverage ratio buffer will increase to 0.4% from December 2022.

Funding and liquidity risk

Funding risk occurs where the Group is unable to raise or maintain funds of sufficient quantity and quality to support the delivery of the business plan or sustain lending commitments. Prudent funding risk management reduces the likelihood of liquidity risks occurring, increases the stability of funding sources, minimises concentration risks and ensures future balance sheet growth is sustainable.

Liquidity risk occurs when the Group is unable to meet its current and future financial obligations as they fall due or at acceptable cost, or when the Group reduces liquidity resources below internal or regulatory stress requirements.

Sources of funding

The table below provides an overview of the Group's sources of funding as at 31 March 2022:

	31 Mar 2022 £m	30 Sep 2021 £m
Total assets	**88,609**	89,100
Less: Other liabilities[1]	**(3,086)**	(3,060)
Funding requirement	**85,523**	86,040
Funded by:		
Customer deposits	**64,458**	66,971
Debt securities in issue	**7,908**	7,678
Due to other banks	**7,589**	5,918
of which:		
Secured loans	**7,209**	5,896
Securities sold under agreements to repurchase	**350**	–
Deposits with other banks	**30**	22
Equity	**5,568**	5,473
Total funding	**85,523**	86,040

(1) Other liabilities include derivative financial instruments, current and deferred tax liabilities, provisions for liabilities and charges, and other liabilities as per the balance sheet line item.

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending growth. At 31 March 2022, the Group had a funding requirement of £85,523m (30 September 2021: £86,040m) with the majority being used to support loans and advances to customers.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £64,458m (30 September 2021: £66,971m). Customer deposits are comprised of interest bearing deposits, term deposits and non-interest bearing demand deposits from a range of sources including Unsecured and Business customers. There has been a decrease in customer deposits of £2,513m in the year reflecting careful management, as the Group continued to successfully improve its deposit mix.

Equity

Equity of £5,568m (30 September 2021: £5,473m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the consolidated financial statements.

Liquid assets

The quantity and quality of the Group's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above regulatory requirements.

Liquidity coverage ratio	31 Mar 2022 £m	30 Sep 2021 £m
Eligible liquidity buffer	**10,932**	10,996
Net stress outflows	**7,863**	7,289
Surplus	**3,069**	3,707
Liquidity coverage ratio	**139%**	151%

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be high-quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems).

The volume and quality of the Group's liquid asset portfolio is defined through a series of internal stress tests across a range of time horizons and stress conditions. The liquid asset portfolio is primarily comprised of cash at the BoE, UK Government securities (Gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds).

Liquid asset portfolio(1)	31 Mar 2022 £m	30 Sep 2021 £m	Change %	Average at 31 Mar 2022(3) £m	Average at 30 Sep 2021(3) £m
Level 1					
Cash and balances with central banks	**6,978**	7,060	(1.2)	**7,323**	7,232
UK Government treasury bills and gilts	**1,187**	771	54.0	**892**	779
Other debt securities	**2,840**	3,239	(12.3)	**3,172**	3,296
Total level 1	**11,005**	11,070	(0.6)	**11,387**	11,307
Level 2(2)	**23**	23	0.0	**23**	24
Total LCR eligible assets	**11,028**	11,093	(0.6)	**11,410**	11,331

(1) Excludes encumbered assets.
(2) Includes Level 2A and Level 2B.
(3) Represents the rolling average balance over the previous 12 months.

Analysis of debt securities in issue by residual maturity

The table below shows the residual maturity of the Group's debt securities in issue:

	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total at 31 Mar 2022 £m	Total at 30 Sep 2021 £m
Covered bonds	**27**	**-**	**2,368**	**-**	**2,395**	1,852
Securitisation	**287**	**1,454**	**440**	**-**	**2,181**	2,389
Medium-term notes	**19**	**1**	**2,329**	**-**	**2,349**	2,422
Subordinated debt	**13**	**1**	**969**	**-**	**983**	1,015
Total debt securities in issue	**346**	**1,456**	**6,106**	**-**	**7,908**	7,678
Of which issued by Virgin Money UK PLC	**32**	**2**	**3,298**	**-**	**3,332**	3,437

External credit ratings

The Group's long-term credit ratings are summarised below:

	Outlook as at 31 Mar 2022[1]	As at 31 Mar 2022	As at 30 Sep 2021
Virgin Money UK PLC			
Moody's	**Stable**	**Baa2**	Baa2
Fitch	**Stable**	**BBB+**	BBB+
Standard & Poor's	**Stable**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's[2]	**Stable**	**Baa1**	Baa1
Fitch	**Stable**	**A-**	A-
Standard & Poor's	**Stable**	**A-**	A-

(1) For detailed background on the latest opinion by Standard & Poor's, Fitch and Moody's, please refer to the respective rating agency website.
(2) Long-term deposit rating.

In December 2021, Moody's affirmed the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC with an unchanged Stable outlook, citing the Group's low stock of problem loans, good risk-weighted capital and sound funding and liquidity.

In January 2022, Standard & Poor's affirmed the ratings of Virgin Money UK PLC and Clydesdale Bank PLC with an unchanged Stable outlook, citing the Group's solid market position, improving performance and sound capitalisation.

As at 4 May 2022, there have been no other changes to the Group's long-term credit ratings or outlooks since the report date.

Net interest income

Earnings sensitivity measures calculate the change in NII over a 12-month period resulting from an instantaneous and parallel change in interest rates. The +/- 25 bps shock represents the primary NII sensitivity assessed internally, though a range of scenarios are assessed on a monthly basis.

12 months NII sensitivity	31 Mar 2022 £m	30 Sep 2021 £m
+25 bps parallel shift	**12**	30
-25 bps parallel shift	**(5)**	(23)

The reduction in NII sensitivity since year end is primarily the result of an increase in the size of the structural hedge from £26bn to £32bn lowering the exposure to quantum and timing of Bank Base Rate (BBR) changes. The sensitivity has further reduced due to the impact of the increases in BBR on the mix, cost and pass through of the deposit book.

Sensitivities disclosed reflect the expected mechanical response to a movement in rates and represent a prudent outcome. The sensitivities are indicative only and should not be viewed as a forecast. The key assumptions and limitations are outlined below:

- the sensitivities are calculated based on a static balance sheet and it is assumed there is no change to margins on reinvestment of maturing fixed rate products;
- there are no changes to basis spreads with the rate change passed on in full to all interest rate bases;
- administered rate products receive a full rate pass on in the rate fall scenario, subject to internal product floor assumptions. In the rate rise scenario administered products receive a rate pass on in line with internal scenario specific pass on assumptions;
- additional commercial pricing responses and management actions are not included; and
- while in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

LIBOR replacement

The Group's LIBOR cessation programme successfully met the 2021 GBP regulatory and industry milestones. Group Treasury proactively transitioned all external transactions across issuance, hedging and liquid assets and over 90% of Business Lending customer transactions also switched from LIBOR to alternative reference rates (ARRs), with numbers continuing to reduce.

As at 31 March 2022, all market-facing derivative flows are executed against the Sterling Overnight Index Average (SONIA). The focus for 2022 is ongoing management of the small business lending tough legacy and USD cohort. Processes have been implemented to ensure continued effort to move customers off synthetic LIBOR to ARRs throughout 2022.

Financial instruments that have yet to transition to alternative benchmark rates are summarised below:

Amounts yet to be transitioned

31 March 2022	**Non derivative financial assets - carrying value(2)** £m	**Non derivative financial liabilities - carrying value(5)** £m	**Derivatives - nominal amount(3)** £m
GBP LIBOR	**251**	**-**	**130**
Other(4)	**149**	**-**	**-**
Cross currency swaps			
GBP LIBOR to USD LIBOR			**46**
Total	**400**	**-**	**176**

30 September 2021	Non derivative financial assets - carrying value(1)(2) £m	Non derivative financial liabilities - carrying value(5) £m	Derivatives - nominal amount(1)(3) £m
GBP LIBOR	2,037	-	4,754
Other(4)	157	-	-
Cross currency swaps			
GBP LIBOR to USD LIBOR			95
Total	2,194	-	4,849

(1) Excludes exposures that are expected to expire or mature before the Interbank Offered Rate (IBOR) ceases.
(2) Gross carrying amount excluding allowances for ECLs.
(3) The IBOR exposures for derivative nominal amounts include undrawn loan commitments shown as GBP LIBOR. This is materially the case although some facilities allow drawdowns in a number of different currencies.
(4) Comprises financial instruments referencing other IBOR rates yet to transition to alternative benchmark rates (Euro, USD, AUD, CHF).
(5) In addition to the financial liabilities included in the table, at 30 September 2021 £742m issued Covered Bonds were fixed rate with an option to convert to GBP LIBOR if not redeemed on the scheduled maturity date. The option to convert was transitioned to SONIA on 22 October 2021. Also at 30 September 2021, Gosforth 2018-1 notes in issue of £788m were still based on LIBOR, but following a successful consent solicitation earlier in the year, the notes converted to SONIA effective from 25 February 2022.

The Group maintains engagement with the BoE's Working Group on Sterling Risk Free Reference Rates and other industry forums. The programme ensures that the risks of being unable to offer products with suitable reference rates will be mitigated and that full consideration is given to the other risks, including legal, conduct, financial and operational risks, that may arise. While no material changes to the Group's risk management strategy are expected, the programme will continuously monitor progress and amend the approach accordingly.

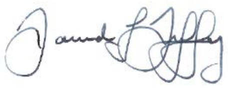
Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) and that the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules (DTR) 4.2.7R and DTR 4.2.8R, namely:

a) an indication of important events that have occurred during the six months ended 31 March 2022 and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

b) material related party transactions in the six months ended 31 March 2022 and any material changes in the related party transactions described in the last Annual Report of Virgin Money UK PLC.

Signed by order of the Board



David Duffy
Chief Executive Officer
4 May 2022

Independent review report to Virgin Money UK PLC

Conclusion

We have been engaged by Virgin Money UK PLC to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2022 which comprises the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated balance sheet, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and the related explanatory notes 1.1 to 5.3. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this interim financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Responsibilities of the Directors

The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Auditor's Responsibilities for the review of the financial information

In reviewing the interim report, we are responsible for expressing to Virgin Money UK PLC a conclusion on the condensed set of financial statements in the interim financial report. Our conclusion is based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP

Ernst & Young LLP
London
4 May 2022

Interim condensed consolidated income statement

	Note	**6 months to 31 Mar 2022 (unaudited) £m**	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Interest income		**1,013**	953	1,906
Other similar interest		**1**	2	4
Interest expense and similar charges		**(237)**	(309)	(553)
Net interest income	2.2	**777**	646	1,357
Gains less losses on financial instruments at fair value		**(5)**	(15)	(5)
Other operating income		**72**	64	137
Non-interest income	2.3	**67**	49	132
Total operating income		**844**	695	1,489
Operating and administrative expenses before impairment losses	2.4	**(508)**	(585)	(1,203)
Operating profit before impairment losses		**336**	110	286
Impairment losses/(credit) on credit exposures		**(21)**	(38)	131
Profit on ordinary activities before tax		**315**	72	417
Tax (expense)/credit	2.5	**(77)**	8	57
Profit for the period		**238**	80	474
Attributable to:				
Ordinary shareholders		**198**	40	395
Other equity holders		**40**	40	79
Profit for the period		**238**	80	474
Basic earnings per share (pence)	2.6	**13.7**	2.8	27.3
Diluted earnings per share (pence)	2.6	**13.7**	2.8	27.3

All material items dealt with in arriving at the profit before tax for the periods relate to continuing activities.

The notes on pages 71 to 90 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Profit for the period	**238**	80	474
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
Gains during the period	**73**	111	99
Transfers to the income statement	**(5)**	22	24
Taxation thereon - deferred tax charge	**(17)**	(34)	(33)
Taxation thereon - current tax charge	**(1)**	(1)	-
	50	98	90
Change in FVOCI reserve			
Gains during the period	**9**	27	33
Taxation thereon - deferred tax charge	**(1)**	(7)	(11)
	8	20	22
Total items that may be reclassified to the income statement	**58**	118	112
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	**126**	(16)	54
Taxation thereon - deferred tax charge	**(49)**	(1)	(46)
Taxation thereon - current tax credit	**4**	5	21
Total items that will not be reclassified to the income statement	**81**	(12)	29
Other comprehensive income, net of tax	**139**	106	141
Total comprehensive income for the period, net of tax	**377**	186	615
Attributable to:			
Ordinary shareholders	**337**	146	536
Other equity holders	**40**	40	79
Total comprehensive income attributable to equity holders	**377**	186	615

The notes on pages 71 to 90 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated balance sheet

	Note	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**71,413**	71,876
Cash and balances with central banks		**9,527**	9,711
Due from other banks		**858**	800
Financial assets at FVTPL			
Loans and advances to customers	3.2	**115**	133
Derivative financial instruments	3.3	**189**	140
Other financial assets	3.2	**5**	20
Financial assets at FVOCI		**4,423**	4,352
Property, plant and equipment		**227**	250
Intangible assets and goodwill		**343**	373
Current tax assets		**-**	13
Deferred tax assets	3.4	**330**	377
Defined benefit pension assets	3.8	**992**	847
Other assets		**187**	208
Total assets		**88,609**	89,100
Liabilities			
Financial liabilities at amortised cost			
Customer deposits		**64,458**	66,971
Debt securities in issue	3.5	**7,908**	7,678
Due to other banks	3.6	**7,589**	5,918
Financial liabilities at FVTPL			
Derivative financial instruments	3.3	**262**	209
Current tax liabilities		**16**	-
Deferred tax liabilities	3.4	**347**	296
Provisions for liabilities and charges	3.7	**82**	104
Other liabilities		**2,379**	2,451
Total liabilities		**83,041**	83,627
Equity			
Share capital and share premium	4.1	**152**	149
Other equity instruments	4.1	**697**	915
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves		**119**	71
Retained earnings		**3,311**	3,049
Total equity		**5,568**	5,473
Total liabilities and equity		**88,609**	89,100

The notes on pages 71 to 90 form an integral part of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors on 4 May 2022 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Company name: Virgin Money UK PLC, Company number: 09595911

Interim condensed consolidated statement of changes in equity

	Share capital and share premium	Capital reorg' reserve	Merger reserve	Other equity instruments	Other reserves: Deferred shares reserve	Other reserves: Equity based comp' reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedge reserve	Retained earnings	Total equity
Note	4.1.1	4.1.3	4.1.4	4.1.2				4.1.5		
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 October 2020[(1)]	147	(839)	2,128	915	16	10	11	(80)	2,624	4,932
Profit for the period	-	-	-	-	-	-	-	-	80	80
Other comprehensive income/(losses) net of tax	-	-	-	-	-	-	20	98	(12)	106
Total comprehensive income for the period	-	-	-	-	-	-	20	98	68	186
AT1 distributions paid	-	-	-	-	-	-	-	-	(40)	(40)
Ordinary shares issued	2	-	-	-	-	-	-	-	-	2
Transfer from equity based compensation reserve	-	-	-	-	-	(1)	-	-	1	-
Equity based compensation expensed	-	-	-	-	-	2	-	-	-	2
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(2)	-	-	-	-	(2)
As at 31 March 2021[(1)]	149	(839)	2,128	915	14	11	31	18	2,653	5,080
Profit for the period	-	-	-	-	-	-	-	-	394	394
Other comprehensive income/(losses) net of tax	-	-	-	-	-	-	2	(8)	41	35
Total comprehensive income/(losses) for the period	-	-	-	-	-	-	2	(8)	435	429
AT1 distributions paid	-	-	-	-	-	-	-	-	(39)	(39)
Equity based compensation expensed	-	-	-	-	-	3	-	-	-	3
As at 30 September 2021[(1)]	149	(839)	2,128	915	14	14	33	10	3,049	5,473
Profit for the period	-	-	-	-	-	-	-	-	238	238
Other comprehensive income net of tax	-	-	-	-	-	-	8	50	81	139
Total comprehensive income for the period	-	-	-	-	-	-	8	50	319	377
AT1 distributions paid	-	-	-	-	-	-	-	-	(40)	(40)
Dividends paid to ordinary shareholders	-	-	-	-	-	-	-	-	(14)	(14)
Ordinary shares issued	3	-	-	-	-	-	-	-	-	3
Transfer from equity based compensation reserve	-	-	-	-	-	(9)	-	-	9	-
Equity based compensation expensed	-	-	-	-	-	3	-	-	-	3
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(4)	-	-	-	-	(4)
AT1 redemption	-	-	-	(218)	-	-	-	-	(12)	(230)
As at 31 March 2022[(1)]	**152**	**(839)**	**2,128**	**697**	**10**	**8**	**41**	**60**	**3,311**	**5,568**

(1) The balances as at 1 October 2020 and 30 September 2021 have been audited; the movements in the individual six month periods to 31 March 2021 and 31 March 2022 are unaudited.

The notes on pages 71 to 90 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows

	Note	**6 months to 31 Mar 2022 (unaudited) £m**	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Operating activities				
Profit on ordinary activities before tax		**315**	72	417
Adjustments for:				
Non-cash or non-operating items included in profit before tax		**(673)**	(498)	(1,225)
Changes in operating assets		**469**	522	832
Changes in operating liabilities		**(2,146)**	686	(1,026)
Payments for short-term and low value leases		**-**	(1)	(1)
Interest received		**988**	1,033	2,088
Interest paid		**(163)**	(273)	(461)
Tax (paid)/received		**(15)**	9	(27)
Net cash (used in)/provided by operating activities		**(1,225)**	1,550	597
Cash flows from investing activities				
Interest received		**26**	23	19
Proceeds from maturity of financial assets at FVOCI		**436**	770	1,079
Proceeds from sale of financial assets at FVOCI		**60**	-	-
Purchase of financial assets at FVOCI		**(712)**	(369)	(521)
Purchase of shares issued by UTM		**(4)**	(7)	(12)
Proceeds from sale of property, plant and equipment		**-**	3	6
Purchase of property, plant and equipment		**(6)**	(10)	(26)
Purchase and development of intangible assets		**(33)**	(22)	(80)
Net cash (used in)/provided by investing activities		**(233)**	388	465
Cash flows from financing activities				
Interest paid		**(72)**	(58)	(161)
Repayment of principal portions of lease liabilities	5.3	**(13)**	(14)	(28)
Redemption of AT1 securities		**(230)**	-	-
Redemption and principal repayment on RMBS and covered bonds	5.3	**(216)**	(943)	(1,543)
Redemption and principal repayment on medium-term notes/subordinated debt	5.3	**-**	(30)	(30)
Issuance of RMBS and covered bonds	5.3	**600**	-	-
Issuance of medium-term notes/subordinated debt	5.3	**-**	-	732
Amounts drawn under the TFSME	5.3	**2,550**	1,750	3,350
Amounts repaid under the TFS	5.3	**(1,244)**	(1,500)	(2,864)
Purchase of own shares		**(1)**	-	-
AT1 distributions	4.1	**(40)**	(40)	(79)
Ordinary dividends paid	4.1	**(14)**	-	-
Net cash provided by/(used in) financing activities		**1,320**	(835)	(623)
Net (decrease)/increase in cash and cash equivalents		**(138)**	1,103	439
Cash and cash equivalents at the beginning of the period		**10,253**	9,814	9,814
Cash and cash equivalents at the end of the period		**10,115**	10,917	10,253

The notes on pages 71 to 90 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

Section 1: Basis of preparation and accounting policies

Overview

On 1 October 2021, the Group transitioned to preparing consolidated financial statements under UK adopted International Accounting Standards (IAS) which is a change in accounting framework. This had no impact on the recognition, measurement or disclosure of financial information presented in the period.

These interim condensed consolidated financial statements for the six months ended 31 March 2022 have been prepared in accordance with UK adopted IAS 34 'Interim Financial Reporting'. They have also been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK's Financial Conduct Authority. They do not include all the information required by IASs in full annual financial statements and should therefore be read in conjunction with the Group's 2021 Annual Report and Accounts which was prepared in accordance with International Financial Reporting Standards (IFRSs) in conformity with the Companies Act 2006 and IFRS adopted pursuant to regulation (EC) No 1606/2002 as it applies in the EU and also including the early adoption of 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which had been endorsed by the EU and UK in January 2021 and included in UK adopted International Accounting Standards. Copies of the 2021 Annual Report and Accounts are available from the Group's website at https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/.

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of Section 434 of the Companies Act 2006 ('the Act'). Statutory accounts for the year ended 30 September 2021 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 498 of the Act.

1.1 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance, and position, are set out in the business and financial review section of these interim condensed consolidated financial statements. This should be read in conjunction with the strategic report which can be found in the Group's 2021 Annual Report and Accounts. The Group's objectives, policies and processes for managing capital can be found in the risk management section of this report.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing these interim condensed consolidated financial statements. In reaching this assessment, the Directors have considered a wide range of information relating to present and future conditions, including potential impacts from top and emerging risks and the related impact on profitability, capital and liquidity.

1.2 Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those policies followed in the preparation of the Group's 2021 Annual Report and Accounts. Comparatives are presented on a basis that conforms to the current presentation unless stated otherwise.

1.3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that best estimates can be reliably measured, actual amounts may differ from those estimated. There has been no change to the areas where the Group applies critical accounting estimates and judgements compared to those shown in the Group's 2021 Annual Report and Accounts.

Section 1: Basis of preparation and accounting policies (continued)

1.3 Critical accounting estimates and judgements (continued)

An update on ECLs and the allowance for impairment losses on credit exposures is provided within the credit risk section of the Risk report, and an update on the effective interest rate (EIR) is provided below:

EIR

EIR is determined at initial recognition based upon management's best estimate of the future cash flows of the financial instrument. In the event these estimates are revised at a later date, a present value adjustment to the carrying value of the EIR asset may be recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method introduces a source of estimation uncertainty. Management considers that material risk of adjustment exists in relation to the application of EIR to the Group's mortgage and credit card portfolios.

Mortgages

The main accounting judgement when assessing the cash flows within the Group's secured lending EIR model is the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate period) and the early repayment charge income receivable. If customer repayments, redemptions or product transfers were to take place one month earlier, the loans and advances to customers balance would reduce by £10m with the adjustment recognised in net interest income.

Credit cards

The Group measures credit card EIR by modelling expected cash flows based on assumptions of future customer behaviour, which is supported by observed experience. Key behavioural assumptions include an estimation of utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period.

The Group has applied an average attrition rate of 1.5% per month following the end of the promotional period. If, however, the actual level of customer balance attrition was to increase by 0.5% per month, the Group estimates it would result in a negative present value adjustment of approximately £11m, which would be recognised in the income statement.

The Group holds an appropriate level of model risk reserve across both asset classes to mitigate the risk of estimation uncertainty.

1.4 Accounting developments

In May 2020 the International Accounting Standards Board (IASB) issued an 'amendment to IFRS 16 and COVID-19 related rent concessions beyond June 2021', which was endorsed for use in the UK and was effective for financial periods beginning on or after 1 June 2020. This amendment introduced the optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. The IASB subsequently extended this in March 2021, effective for financial periods beginning on or after 1 April 2021. These pronouncements have had no material impact on the interim condensed consolidated financial statements as the Group does not receive rent concessions.

During the period, there have been no further pronouncements issued by the IASB that are considered relevant and material to the Group.

1.5 Presentation of risk disclosures

Certain disclosures outlined in IFRS 7 'Financial Instruments: Disclosure' concerning the nature and extent of risks relating to financial instruments have been included within the risk management section of this report.

Section 2: Results for the period

2.1 Segment information

The Group's operating segments are operating units engaged in providing different products or services and whose operating results and overall performance are regularly reviewed by the Group's Chief Operating Decision Maker, the Executive Leadership Team.

The Group continues to operate under three commercial lines: Mortgages, Unsecured and Business, which are reported through the Chief Commercial Officer. At this point in time, the business continues to be reported to the Group's Chief Operating Decision Maker as a single segment and decisions made on the performance of the Group on that basis. Segmental information will therefore continue to be presented on this single segment basis.

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Net interest income	**777**	646	1,357
Non-interest income	**67**	49	132
Total operating income	**844**	695	1,489
Operating and administrative expenses	**(508)**	(585)	(1,203)
Impairment (losses)/credit on credit exposures	**(21)**	(38)	131
Segment profit before tax	**315**	72	417
Average interest earning assets	**85,729**	87,134	86,947

2.2 Net interest income

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Interest income			
Loans and advances to customers	**988**	940	1,880
Loans and advances to other banks	**12**	4	8
Financial assets at FVOCI	**13**	9	18
Total interest income	**1,013**	953	1,906
Other similar interest			
Financial assets at FVTPL	**3**	5	9
Derivatives economically hedging interest bearing assets	**(2)**	(3)	(5)
Total other similar interest	**1**	2	4
Less: interest expense and similar charges			
Customer deposits	**(134)**	(208)	(361)
Debt securities in issue	**(90)**	(83)	(168)
Due to other banks	**(12)**	(16)	(20)
Other interest expense	**(1)**	(2)	(4)
Total interest expense and similar charges	**(237)**	(309)	(553)
Net interest income	**777**	646	1,357

Section 2: Results for the period (continued)

2.3 Non-interest income

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Gains less losses on financial instruments at fair value			
Held for trading derivatives	**(7)**	3	6
Financial assets at fair value[1]	**(7)**	(8)	4
Ineffectiveness arising from fair value hedges	**18**	(6)	(10)
Amounts recycled to profit and loss from cash flow hedges[2]	**(2)**	(3)	(5)
Ineffectiveness arising from cash flow hedges	**(7)**	(1)	-
	(5)	(15)	(5)
Other operating income			
Net fee and commission income	**67**	59	124
Margin on foreign exchange derivative brokerage	**9**	8	16
Share of joint venture (JV) loss after tax	**(5)**	(4)	(5)
Other income	**1**	1	2
	72	64	137
Total non-interest income	**67**	49	132

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £1m (31 March 2021: £Nil, 30 September 2021: £1m gain) and a fair value gain on equity investments of £Nil (31 March 2021: £Nil, 30 September 2021: £15m gain).
(2) In respect of terminated hedges.

The Group's unrecognised share of losses of JVs for the period was £1m (31 March 2021: £Nil, 30 September 2021: £1m). For entities making losses, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. The Group's unrecognised share of losses net of unrecognised profits on a cumulative basis of JVs is £2m (31 March 2021: £1m, 30 September 2021: £1m).

Non-interest income includes the following fee and commission income disaggregated by product type:

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Current account and debit card fees	**49**	43	90
Credit cards	**23**	16	38
Insurance, protection and investments	**5**	6	10
Other fees[1]	**15**	13	29
Total fee and commission income	**92**	78	167
Total fee and commission expense	**(25)**	(19)	(43)
Net fee and commission income	**67**	59	124

(1) Includes mortgages, invoice and asset finance and ATM fees.

Section 2: Results for the period (continued)

2.4 Operating and administrative expenses before impairment losses

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Staff costs	**213**	205	426
Property and infrastructure	**22**	31	89
Technology and communications	**59**	63	121
Corporate and professional services	**62**	59	160
Depreciation, amortisation and impairment	**71**	88	191
Other expenses	**81**	139	216
Total operating and administrative expenses	**508**	585	1,203

In the Group's 2021 Annual Report and Accounts, the methodology for categorising operating and administrative expenses before impairment losses was refined to provide a more accurate reflection of what these costs represent. The March 2021 comparatives have been amended to conform with the September 2021 and the current period's presentation. There has been no change to the total operating and administrative expenses in the prior period to 31 March 2021 or year to 30 September 2021.

The change took the original other expenses figure of £315m for the 6 month period to March 2021 and analysed this further with new line items created to better reflect the nature of the expenditure. The revised 6 month period to March 2021 other expenses is now £139m, with the £176m reallocated to: i) £161m re-classified into three new line items of property and infrastructure (£31m), technology and communications (£63m), and corporate and professional services (£67m), which has been further adjusted to £59m due to costs (£8m) which have been reclassified from staff costs and now more appropriately classified as corporate and professional services; ii) £1m of impairments to right-of-use assets re-classified to the depreciation, amortisation and impairment line item (previously £87m); and iii) £14m primarily related to redundancy costs that are now reclassified to staff costs.

Staff costs comprise the following items:

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Salaries and wages	**136**	121	248
Social security costs	**14**	16	30
Defined contribution pension expense	**25**	25	49
Defined benefit pension credit	**(12)**	(2)	(8)
Compensation costs	**163**	160	319
Equity based compensation(1)	**2**	3	8
Bonus awards	**21**	2	22
Performance costs	**23**	5	30
Redundancy and restructuring	**7**	14	29
Temporary staff costs	**6**	7	13
Other	**14**	19	35
Other staff costs	**27**	40	77
Total staff costs	**213**	205	426

(1) Includes National Insurance on equity based compensation.

The analysis of staff costs has therefore also been impacted by this change, with the 6 month period to March 2021 salaries, wages and non-cash benefits and social security costs of £131m increasing by £6m to £137m and now split between salaries and wages (£121m) and social security costs (£16m). Redundancy costs in the 6 month period to March 2021 of £14m is also now separately disclosed. In addition, other personnel costs in the 6 month period to March 2021 of £27m have also been further analysed to provide greater detail on the nature of the costs. These are now disclosed as £19m, with the difference of £8m primarily the result of the introduction of the new temporary staff costs line item of £7m.

The defined benefit pension credit in the current period includes a credit of £8m arising from the ongoing Pension Increase Exchange (PIE) exercise due to complete in calendar year 2022. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension.

Section 2: Results for the period (continued)

2.5 Taxation

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Current tax			
Current period	**39**	16	62
Adjustment in respect of prior periods	**8**	-	-
	47	16	62
Deferred tax			
Current period	**38**	(23)	(124)
Adjustment in respect of prior periods	**(8)**	(1)	5
	30	(24)	(119)
Tax charge/(credit) for the period	**77**	(8)	(57)

The tax assessed for the period differs from that arising from applying the standard rate of corporation tax in the UK of 19%. A reconciliation from the charge implied by the standard rate to the actual tax expense/(credit) is as follows:

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Profit on ordinary activities before tax	**315**	72	417
Tax expense based on the standard rate of corporation tax in the UK of 19% (March and September 2021: 19%)	**60**	14	79
Effects of:			
Disallowable expenses	**1**	12	13
Bank levy	**-**	-	1
Conduct indemnity adjustment	**(12)**	32	58
Deferred tax assets recognised	**(19)**	(55)	(126)
Impact of rate changes	**41**	(7)	(92)
AT1 distribution	**(8)**	(8)	(15)
Banking surcharge	**14**	5	20
Adjustments in respect of prior periods	**-**	(1)	5
Tax expense/(credit) for the period	**77**	(8)	(57)

In February 2022 legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The changes are effective for current tax from 1 April 2023 but, in accordance with accounting standards, have effect for deferred tax in the current period. The impact is a reduction in the value of deferred tax assets, reflected in the £41m charge to the income statement above, partially offset by a reduction of £12m in the value of the conduct indemnity payable to the Group's former parent.

Deferred tax assets recognised represent historic losses, previously derecognised, that are now brought onto the balance sheet in accordance with the Group's established methodology, reflecting their expected utilisation against future taxable profits. Further detail on deferred tax is provided in note 3.4.

Section 2: Results for the period (continued)

2.6 Earnings per share

	6 months to 31 Mar 2022 (unaudited) £m	6 months to 31 Mar 2021 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
Profit attributable to ordinary equity holders for the purposes of basic and diluted EPS	**198**	40	395

	31 Mar 2022 Number of shares	31 Mar 2021 Number of shares	30 Sep 2021 Number of shares
Weighted-average number of ordinary shares in issue (millions)			
- Basic	**1,443**	1,442	1,442
- Diluted	**1,446**	1,444	1,443
Basic earnings per share (pence)	**13.7**	2.8	27.3
Diluted earnings per share (pence)	**13.7**	2.8	27.3

Basic earnings per share has been calculated after deducting 0.2m (31 March 2021: 0.2m, 30 September 2021: 0.1m) ordinary shares representing the weighted average of the Group's holdings of its own shares.

Section 3: Assets and liabilities

3.1 Loans and advances to customers

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Gross loans and advances to customers	**72,417**	72,551
Impairment provisions on credit exposures[1]	**(472)**	(496)
Fair value hedge adjustment	**(532)**	(179)
	71,413	71,876

(1) ECLs on off-balance sheet exposures of £7m (30 September 2021: £8m) are presented as part of the provisions for liabilities and charges balance (note 3.7).

The Group has a portfolio of fair valued business loans of £115m (30 September 2021: £133m) which are classified separately as financial assets at FVTPL (note 3.2). Combined with the above this is equivalent to total loans and advances of £71,528m (30 September 2021: £72,009m).

The fair value hedge adjustment represents an offset to the fair value movement on hedging derivatives transacted to manage the interest rate risk inherent in the Group's fixed rate mortgage portfolio.

The Group has transferred a proportion of mortgages to the securitisation and covered bond programmes.

3.2 Financial assets at fair value through profit or loss

Loans and advances

Included in financial assets at FVTPL is a historical portfolio of loans. Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £115m (30 September 2021: £133m) including accrued interest receivable of £Nil (30 September 2021: £Nil). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £2m (30 September 2021: £2m); the change for the current period is £Nil (30 September 2021: decrease of £1m).

Other financial assets

Other financial assets of £5m (30 September 2021: £20m) consist of £4m (30 September 2021: £19m) of unlisted securities and £1m (30 September 2021: £1m) of debt instruments. The reduction in the period represents the disposal of an unlisted equity investment.

Section 3: Assets and liabilities (continued)

3.3 Derivative financial instruments

The tables below analyse derivatives between those designated as hedging instruments and those classified as held for trading:

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	**139**	94
Designated as held for trading	**50**	46
	189	140
Fair value of derivative financial liabilities		
Designated as hedging instruments	**183**	143
Designated as held for trading	**79**	66
	262	209

Cash collateral totalling £129m (30 September 2021: £18m) has been pledged and £30m has been received (30 September 2021: £76m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £10m (30 September 2021: collateral placed of £82m) and is included within other assets and other liabilities.

The derivative financial instruments held by the Group are further analysed below. The notional contract amount is the amount from which the cash flows are derived and does not represent the principal amounts at risk relating to these contracts.

	31 March 2022 (unaudited)			30 September 2021 (audited)		
Total derivative contracts	**Notional contract amount £m**	**Fair value of assets £m**	**Fair value of liabilities £m**	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**42,061**	**577**	**358**	24,886	71	90
Less: net settled interest rate swaps[(1)]	**(37,347)**	**(501)**	**(346)**	(21,500)	(64)	(79)
Interest rate swaps (net)[(2)]	**4,714**	**76**	**12**	3,386	7	11
Fair value hedges						
Interest rate swaps (gross)	**20,696**	**503**	**537**	30,707	295	447
Less: net settled interest rate swaps[(1)]	**(18,277)**	**(443)**	**(499)**	(25,260)	(209)	(390)
Interest rate swaps (net)[(2)]	**2,419**	**60**	**38**	5,447	86	57
Cross currency swaps[(2)]	**1,880**	**3**	**133**	1,880	1	75
	4,299	**63**	**171**	7,327	87	132
Total derivatives designated as hedging instruments	**9,013**	**139**	**183**	10,713	94	143
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange[(2)]	**853**	**16**	**13**	805	13	12
Cross currency swaps[(2)]	**441**	**-**	**-**	490	-	3
Options[(2)]	**1**	**-**	**-**	1	-	-
	1,295	**16**	**13**	1,296	13	15
Interest rate related contracts						
Swaps (gross)	**1,132**	**5**	**36**	734	14	31
Less: Net settled swaps	**(468)**	**(1)**	**-**	-	-	-
Swaps[(2)]	**664**	**4**	**36**	734	14	31
Swaptions[(2)]	**10**	**-**	**1**	10	-	1
Options[(2)]	**376**	**2**	**3**	495	1	2
	1,050	**6**	**40**	1,239	15	34
Commodity related contracts	**131**	**27**	**26**	97	17	17
Equity related contracts	**1**	**1**	**-**	1	1	-
Total derivatives designated as held for trading	**2,477**	**50**	**79**	2,633	46	66

(1) Presented within other assets
(2) Presented within derivative financial instruments

Section 3: Assets and liabilities (continued)

3.3 Derivative financial instruments (continued)

Derivatives transacted to manage the Group's interest rate exposure on a net portfolio basis are accounted for as either cash flow hedges or fair value hedges as appropriate. Derivatives traded to manage interest rate, inflation and currency risk on certain fixed rate assets held for liquidity management, including UK Government Gilts, are accounted for as fair value hedges.

The Group hedging positions also include those designated as foreign currency and interest rate hedges of debt issued from the Group's securitisation and covered bond programmes. As such, certain derivative financial assets and liabilities have been booked in structured entities and consolidated within these financial statements.

The Group has no remaining hedge relationships exposed to LIBOR and as no uncertainty remains regarding benchmark reform, the Group no longer applies the 'Interest Rate Benchmark Reform - Phase 1 and Phase 2 amendments' to hedge accounting. Further detail on the Group's approach to managing the risk of LIBOR replacement, including derivatives designated as held for trading that have not yet transitioned, is provided on page 63.

3.4 Deferred tax

The Group has recognised deferred tax in relation to the following items:

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Deferred tax assets		
Tax losses carried forward	**241**	255
Capital allowances	**113**	124
Cash flow hedge reserve	**(26)**	(9)
Acquisition accounting adjustments	**(8)**	(10)
Transitional adjustment - IFRS 9	**12**	15
Employee equity based compensation	**6**	9
Pension spreading	**2**	5
Gains on financial instruments at FVOCI	**(16)**	(15)
Intangible assets	**(3)**	(3)
Other	**9**	6
	330	377
Deferred tax liabilities		
Defined benefit pension scheme surplus	**(347)**	(296)
Net deferred tax (liability)/asset	**(17)**	81

The deferred tax assets and liabilities detailed above arise primarily in Clydesdale Bank PLC which has a right to offset current tax assets against current tax liabilities and is party to a Group Payment Arrangement for payments of tax to HMRC. Therefore, in accordance with IAS 12, deferred tax assets and deferred tax liabilities have also been offset in this period where they relate to payments of income tax to this tax authority. The deferred tax liability arising in relation to the defined benefit pension scheme surplus does not meet the accounting standard's criteria for offset and so continues to be presented separately both on the face of the balance sheet and detailed in this note.

In February 2022 legislation was enacted to reduce the banking surcharge from 8% to 3%, and to increase the threshold below which it is not chargeable to £100m (previously £25m). The changes are effective for current tax from 1 April 2023 but, in accordance with accounting standards, have effect for deferred tax in the current period. The impact is a reduction in the value of deferred tax assets, reflected in a £41m charge to the income statement (note 2.5), partially offset by a reduction of £12m in the value of the conduct indemnity payable to the Group's former parent.

As in prior periods, deferred tax assets are recognised on profits forecast for 6 years from the balance sheet date. If, instead of six years, the period were five years or seven years, the recognised net deferred tax (liability)/asset (currently a net liability of £17m) would be a net liability of £(68)m or a net asset of £34m, respectively. All tax assets arising will be used within the UK.

In addition, the Group had an unrecognised deferred tax asset at 31 March 2022 of £86m (30 September 2021: £112m) representing trading losses with a gross value of £346m valued at 25% (30 September 2021: £449m valued at 25%).

Section 3: Assets and liabilities (continued)

3.5 Debt securities in issue

The breakdown of debt securities in issue is shown below:

31 March 2022 (unaudited)	**Medium-term notes £m**	**Subordinated debt £m**	**Securitisation £m**	**Covered bonds £m**	**Total £m**
Amortised cost	**2,387**	**1,020**	**2,179**	**2,404**	**7,990**
Fair value hedge adjustments	**(58)**	**(51)**	**(1)**	**(36)**	**(146)**
Total debt securities	**2,329**	**969**	**2,178**	**2,368**	**7,844**
Accrued interest payable	**20**	**14**	**3**	**27**	**64**
	2,349	**983**	**2,181**	**2,395**	**7,908**

30 September 2021 (audited)	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
Amortised cost	2,399	1,019	2,382	1,812	7,612
Fair value hedge adjustments	10	(18)	4	30	26
Total debt securities	2,409	1,001	2,386	1,842	7,638
Accrued interest payable	13	14	3	10	40
	2,422	1,015	2,389	1,852	7,678

Key movements in the period are shown in the table below[(1)]. Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/.

	Period to 31 March 2022				Year to 30 Sept 2021			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Securitisation	**-**	**-**	**USD, EUR, GBP**	**216**	-	-	USD, EUR, GBP	1,543
Covered bonds	**GBP**	**600**	**-**	**-**	-	-	-	-
Medium-term notes	**-**	**-**	**-**	**-**	EUR	432	-	-
Subordinated debt	**-**	**-**	**-**	**-**	GBP	300	GBP	30
		600		**216**		732		1,573

(1) Other movements relate to foreign exchange and amortisation of issue costs and acquisition accounting adjustments.

On 22 October 2021, following a successful consent solicitation process, the Series 2012-2 Covered Bonds transferred from the Clydesdale Bank PLC Global Covered Bond Programme to the Clydesdale Bank PLC (formerly Virgin Money PLC) Global Covered Bond Programme. There was no financial impact to the Group in relation to this transfer.

Section 3: Assets and liabilities (continued)

3.5 Debt securities in issue (continued)

The following tables provide a breakdown of the medium-term notes and subordinated debt by instrument:

Medium-term notes (excluding accrued interest)

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**299**	299
VM UK 4% fixed rate reset callable senior notes due 2026	**486**	509
VM UK 3.375% fixed rate reset callable senior notes due 2025	**344**	359
VM UK 4% fixed rate reset callable senior notes due 2027	**372**	390
VM UK 2.875% fixed rate reset callable senior notes due 2025	**408**	424
VM UK 0.375% fixed rate reset callable senior notes due 2024	**420**	428
	2,329	2,409

Subordinated debt (excluding accrued interest)

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**249**	248
VM UK 5.175% fixed rate reset callable subordinated notes due 2030	**439**	458
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**281**	295
	969	1,001

3.6 Due to other banks

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Secured loans	**7,209**	5,896
Securities sold under agreements to repurchase	**350**	-
Deposits from other banks	**30**	22
	7,589	5,918

Secured loans comprise amounts drawn under the TFSME schemes (including accrued interest).

The underlying securities sold under agreements to repurchase have a carrying value of £484m (30 September 2021: £Nil).

Section 3: Assets and liabilities (continued)

3.7 Provisions for liabilities and charges

	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
PPI redress provision		
Opening balance	**1**	107
Charge to the income statement	**-**	59
Utilised	**(1)**	(165)
Closing balance	**-**	1
Customer redress and other provisions		
Opening balance	**28**	31
Charge to the income statement	**6**	21
Utilised	**(7)**	(24)
Closing balance	**27**	28
Property closure and redundancy provision		
Opening balance	**67**	34
Charge to the income statement	**7**	68
Utilised	**(26)**	(35)
Closing balance	**48**	67
Off-balance sheet ECL provision		
Opening balance	**8**	-
Transfer of ECL provision from loans and advances	**-**	7
(Credit)/charge to the income statement	**(1)**	1
Closing balance	**7**	8
Total provisions for liabilities and charges	**82**	104

PPI redress provision

The Group has now dealt with complaints received in the period up to the time bar in August 2019, including the settlement of claims received from the Official Receiver. The total provision raised in respect of PPI is £3,114m (30 September 2021: £3,114m).

Customer redress and other provisions

Other provisions include amounts in respect of a number of non-PPI customer redress matters, legal proceedings, claims arising in the ordinary course of the Group's business and other matters. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low.

Property closure and redundancy provision

This includes costs for stores and office closures and staff redundancy costs. During the period, provisions of £7m (30 September 2021: £68m) were raised with £Nil (30 September 2021: £33m) relating to stores and office closures and £7m (30 September 2021: £35m) relating to staff redundancy costs.

Section 3: Assets and liabilities (continued)

3.8 Retirement benefit obligations

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme'), a defined benefit pension scheme, which was closed to future benefit accrual for the majority of current employees on 1 August 2017. The assets of the Scheme are held in a trustee administered fund, with the Trustee responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The following table provides a summary of the fair value of plan assets and present value of the defined benefit obligation for the Scheme:

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Fair value of Scheme assets	**4,421**	4,636
Total defined benefit obligation	**(3,429)**	(3,789)
Net defined benefit pension asset	**992**	847

The latest formal triennial valuation for the Scheme was conducted in accordance with Scheme data and market conditions as at 30 September 2019. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £144m (previously deficit of £290m) and a technical provisions funding level of 103% (previously 94%).

3.9 Fair value of financial instruments

This section should be read in conjunction with note 3.16 of the Group's 2021 Annual Report and Accounts, which provides more detail about accounting policies adopted and valuation methodologies used in calculating fair value. There have been no changes in the accounting policies adopted or the valuation methodologies used.

(a) Fair value of financial instruments recognised on the balance sheet at amortised cost

The tables below show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values where these are not approximately equal.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables in note 3.16 of the Group's 2021 Annual Report and Accounts. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	31 Mar 2022 (unaudited)		30 Sep 2021 (audited)	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers(1)	**71,413**	**71,163**	71,876	72,229
Financial liabilities				
Customer deposits(2)	**64,458**	**64,396**	66,971	67,012
Debt securities in issue(3)	**7,908**	**8,169**	7,678	8,050
Due to other banks(2)	**7,589**	**7,581**	5,918	5,918

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,107m (30 September 2021: £1,057m) of overdrafts which are categorised as Level 2.
(2) Categorised as Level 2 in the fair value hierarchy.
(3) Categorised as Level 2 in the fair value hierarchy with the exception of £3,498m of listed debt (30 September 2021: £3,704m) which is categorised as level 1.

Section 3: Assets and liabilities (continued)

3.9 Fair value of financial instruments (continued)

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured at fair value, using the fair value hierarchy described above:

	Fair value measurement as at 31 Mar 2022 (unaudited)				Fair value measurement as at 30 Sep 2021 (audited)			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets at FVOCI	**4,423**	**-**	**-**	**4,423**	4,352	-	-	4,352
Loans and advances at FVTPL	**-**	**115**	**-**	**115**	-	133	-	133
Other financial assets at FVTPL	**-**	**-**	**5**	**5**	-	14	6	20
Derivative financial assets	**-**	**188**	**1**	**189**	-	139	1	140
Total financial assets at fair value	**4,423**	**303**	**6**	**4,732**	4,352	286	7	4,645
Financial liabilities								
Derivative financial liabilities	**-**	**262**	**-**	**262**	-	209	-	209
Total financial liabilities at fair value	**-**	**262**	**-**	**262**	-	209	-	209

There were no transfers between Level 1 and 2 in the current or prior period.

Additional analysis on assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Level 3 movement analysis:	**6 months to 31 Mar 2022 (unaudited)**		12 months to 30 Sep 2021 (audited)	
	Financial assets at FVTPL £m	**Derivative financial assets £m**	Financial assets at FVTPL £m	Derivative financial assets £m
Balance at the beginning of the period	**6**	1	5	-
Fair value gains recognised[(1)]				
In profit or loss - unrealised	**-**	-	1	1
Settlements	**(1)**	-	-	-
Balance at the end of the period	**5**	1	6	1

(1) Net gains or losses were recorded in non-interest income.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Share capital	**144**	144
Share premium	**8**	5
Share capital and share premium	**152**	149

	31 Mar 2022 (unaudited) Number of shares	30 Sep 2021 (audited) Number of shares	**31 Mar 2022 (unaudited) £m**	30 Sep 2021 (audited) £m
Ordinary shares of £0.10 each - allotted, called up, and fully paid				
Opening ordinary share capital	**1,439,993,431**	1,438,574,687	**144**	144
Issued under employee share schemes	**2,896,478**	1,418,744	**-**	-
Closing ordinary share capital	**1,442,889,909**	1,439,993,431	**144**	144

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 31 March 2022 rank equally with regard to the Company's residual assets.

A final dividend in respect of the year ended 30 September 2021 of 1p per ordinary share in the Company amounting to £14m, was paid in March 2022.

The Directors have declared an interim dividend in respect of the year ending 30 September 2022 of 2.5p per ordinary share in the Company, amounting to £36m, to be paid in June 2022.

Share premium represents the aggregate of all amounts that have ever been paid above par value to the Company when it has issued ordinary shares.

A description of the other equity categories included within the statements of changes in equity, and significant movements during the year, is provided below.

4.1.2 Other equity instruments

Other equity instruments consist of the following Perpetual Contingent Convertible Notes:

- Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with a nominal value of £450m and optional redemption on 8 December 2022;
- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.

On 10 November 2021, perpetual securities with a nominal value of £230m were redeemed in full.

The issues are treated as equity instruments in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, net of transaction costs of £3m (30 September 2021: £15m). AT1 distributions of £40m were paid in the period (30 September 2021: £79m; 31 March 2021: £40m).

4.1.3 Capital reorganisation reserve

The capital reorganisation reserve of £839m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of the Group's previous parent company, CYB Investments Limited (CYBI). The reserve reflects the difference between the consideration for the issuance of the Company's shares and CYBI's share capital and share premium.

Section 4: Capital (continued)

4.1.4 Merger reserve

A merger reserve of £633m was recognised on the issuance of the Company's ordinary shares in February 2016 in exchange for the acquisition of the entire share capital of CYBI. An additional £1,495m was recognised on the issuance of the Company's ordinary shares in October 2018 in exchange for the acquisition of the entire share capital of Virgin Money Holdings (UK) PLC. The merger reserve reflects the difference between the consideration for the issuance of the Company's shares and the nominal value of the shares issued.

4.1.5 Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

	6 months to 31 Mar 2022 (unaudited) £m	12 months to 30 Sep 2021 (audited) £m
At 1 October	**10**	(80)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**73**	127
Amounts transferred to the income statement	**(5)**	(5)
Taxation	**(18)**	(33)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**-**	(28)
Amounts transferred to the income statement	**-**	29
Closing cash flow hedge reserve	**60**	10

Section 5: Other notes

5.1 Contingent liabilities and commitments

The table below sets out the amounts of financial guarantees and commitments which are not recorded on the balance sheet. Financial guarantees and commitments are credit-related instruments which include acceptances, letters of credit, guarantees and commitments to extend credit. The amounts do not represent the amounts at risk at the balance sheet date but the amounts that would be at risk should the contracts be fully drawn upon and the customer default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	31 Mar 2022 (unaudited) £m	30 Sep 2021 (audited) £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**22**	20
Due between 3 months and 1 year	**37**	21
Due between 1 year and 3 years	**12**	13
Due between 3 years and 5 years	**3**	2
Due after 5 years	**44**	45
	118	101
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**18,208**	17,020

Capital commitments

The Group committed to providing additional funding of up to £5.5m over an eight-month period from June 2021 to enable the JV UTM to support the business transformation and to meet its regulatory capital and liquidity requirements, of which £Nil was the remaining commitment as at 31 March 2022 (30 September 2021: £4m). Further detail on UTM can be found in the JVs and associates section of note 5.2.

Other contingent liabilities

Conduct risk related matters

There continues to be uncertainty and thus judgement is required in determining the quantum of conduct risk related liabilities, with note 3.7 reflecting the Group's current position in relation to a number of these matters where a provision can be reliably estimated. Until all matters are closed the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Legal claims

The Group is named in and is defending a number of legal claims arising in the ordinary course of business. No material adverse impact on the financial position of the Group is expected to arise from the ultimate resolution of these legal actions.

Section 5: Other notes (continued)

5.2 Related party transactions

The Group undertakes activity with the following entities which are considered to be related party transactions:

Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme')

The Group provides banking services to the Scheme, with customer deposits of £10m (30 September 2021: £40m). Pension contributions of £6m were made to the Scheme in the period (period ended 31 March 2021: £14m; year ended 30 September 2021: £61m).

The Group and the Trustee to the Scheme (note 3.8) have entered into a contingent Security Arrangement which provides additional support to the Scheme by underpinning recovery plan contributions and some additional investment risk. The security is in the form of a pre-agreed maximum level of assets that are set aside for the benefit of the Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity.

JVs and associates

The Group holds investments in JVs of £9m (30 September 2021: £10m). The total share of loss for the period was £5m (period ended 31 March 2021: £4m; year ended 30 September 2021: £5m). In addition, the Group had the following transactions with JV entities during the period:

- Salary Finance Loans Limited ('Salary Finance') - the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance at 31 March 2022 was £276m (30 September 2021: £223m) and the undrawn facility was £49m (30 September 2021: £37m). The facility is held under Stage 1 for credit risk purposes. Board approval is in place for this facility up until March 2023 with £400m being the approved limit; and
- UTM - the Group provides banking services to UTM which has resulted in amounts due of £3m (30 September 2021: £3m). Additionally, the Group received £4m of recharge income in the period (period ended 31 March 2021: £4m; year ended 30 September 2021: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing.

During the period, the Group provided £4m of additional funding to UTM (30 September 2021: £12m).

Other related party transactions with Virgin Group

The Group has related party transactions with other Virgin Group companies:

- License fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in payables of £5m (30 September 2021: £4m), with expenses incurred in the period of £7m (period ended 31 March 2021: £7m; year ended 30 September 2021: £14m).
- The Group also incurs credit card commissions and air mile charges with VAA in respect of an agreement between the two parties. Amounts payable to VAA totalled £1m (30 September 2021: £2m) and expenses of £7m were incurred in the period (period ended 31 March 2021: £5m; year ended 30 September 2021: £12m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card and personal current account portfolio. During the period this resulted in expenses of £0.3m (31 March 2021: £0.4m, 30 September 2021: £0.8m) along with income of £0.2m (31 March 2021: £nil, 30 September 2021:£Nil)
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the period this resulted in expenses of £0.3m (31 March 2021: £Nil, 30 September 2021: £0.1m).
- The Group paid £2m (30 September 2021: £Nil) of ordinary dividends to Virgin Group Holdings Limited.

Charities

The Group provides banking services to Virgin Money Foundation which has resulted in customer deposits of £1m (30 September 2021: £1m). The Group made donations of £1m in the period (period ended 31 March 2021: £1m; year ended 30 September 2021: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the period was £0.2m (period ended 31 March 2021: £0.2m; year ended 30 September 2021: £0.4m).

Section 5: Other notes (continued)

5.3 Notes to the statement of cash flows

	Term funding schemes[1] £m	Debt securities in issue £m	Lease liabilities £m	Total £m
1 October 2020	5,397	8,758	175	14,330
Cash flows:				
Issuances	-	732	-	732
Drawdowns	3,350	-	-	3,350
Redemptions	-	(1,573)	-	(1,573)
Repayment	(2,864)	-	(28)	(2,892)
Non-cash flows				
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	12	(124)	-	(112)
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	4	4
Remeasurement	-	-	1	1
Movement in accrued interest	1	7	2	10
Unrealised foreign exchange movements	-	(128)	-	(128)
Unamortised costs	-	6	-	6
At 30 September 2021	5,896	7,678	154	13,728
Cash flows:				
Issuances	-	600	-	600
Drawdowns	2,550	-	-	2,550
Redemptions	-	(216)	-	(216)
Repayment	(1,244)	-	(13)	(1,257)
Non-cash flows				
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	-	(171)	-	(171)
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	4	4
Remeasurement	-	-	1	1
Movement in accrued interest	7	23	1	31
Unrealised foreign exchange movements	-	(5)	-	(5)
Unamortised costs	-	(1)	-	(1)
At 31 March 2022	**7,209**	**7,908**	**147**	**15,264**

(1) This includes amounts drawn under the TFS and TFSME.

Measuring financial performance - glossary

Underlying adjustments to the statutory view of performance

Management exclude certain items from the Group's statutory position to arrive at an underlying performance basis. Management's approach to underlying adjustments is aligned to the European Securities and Markets Authority (ESMA) guidelines on APMs and recommendations are subject to review and agreement by the Board Audit Committee. Additional detail on these items is provided below to help understand their exclusion from underlying performance.

Item	**6 months to 31 Mar 2022 £m**	6 months to 31 Mar 2021 £m	6 months to 30 Sep 2021 £m	Reason for exclusion from the Group's current underlying performance
Restructuring charges	**(46)**	(49)	(97)	The current period costs relate to the Group's accelerated Digital First strategy. The Group expects to incur c.£275m of restructuring charges across FY22-24 with around half the total amount incurred in FY22. FY21 costs represented the Group's three year integration plan following the acquisition of Virgin Money Holidays (UK) PLC and comprised a number of one-off expenses that were required to realise the anticipated cost synergies.
Acquisition accounting unwinds	**(14)**	(47)	(41)	This consists principally of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be treated as non-underlying adjustments over the expected three to five-year period until they have been fully reversed.
Legacy conduct	**(5)**	(71)	(5)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:				
SME transformation	**-**	(1)	-	These costs related to transformation of the Group's Business banking proposition and mainly comprised costs associated with the RBS incentivised switching scheme.
UTM transition costs	**(8)**	(5)	(1)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
VISA shares	**-**	-	1	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**-**	-	(68)	These costs relate to the write-off of work-in-progress balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the new digital first strategy and the move to an agile project delivery.
Total other	**(8)**	(6)	(68)	

Glossary

For a glossary of terms and abbreviations used within this report refer to pages 322 to 331 of the Group's 2021 Annual Report and Accounts.

For terms not previously included within the Glossary, or where terms have been redefined or amounts have been quantified, refer below:

Minimum requirement for own funds and eligible liabilities (MREL) ratio	Total capital resources less ineligible AT1 and Tier 2 instruments at the period end of £5,282m (30 September 2021: £5,332m) plus senior unsecured securities issued by Virgin Money UK PLC with greater than one year to maturity at the period end of £2,395m (30 September 2021: £2,408m) divided by RWAs at the period end of £24,184m (30 September 2021: £24,232m).
Net interest margin (NIM)	Underlying net interest income as a percentage of average interest earning assets for a given period. Underlying net interest income of £782m (30 September 2021: £1,412m) is annualised and divided by average interest earning assets for a given period of £85,729m (30 September 2021: £86,947m) (which is adjusted to exclude short-term repos used for liquidity management purposes). As a result of the exclusions noted above, average interest earning assets used as the denominator have been reduced by £14m (30 September 2021: £16m).
Statutory basic earnings per share (EPS)	Statutory profit after tax attributable to ordinary equity holders of £198m (30 September 2021: £395m), divided by the weighted average number of ordinary shares in issue for a given period of 1,443m shares (30 September 2021: 1,442m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
Statutory return on tangible equity (RoTE)	Statutory profit after tax attributable to ordinary equity holders of £198m (30 September 2021: £395m), annualised, as a percentage of average tangible equity of £4,354m (30 September 2021: £3,875m) (average total equity less intangible assets and AT1) for a given period.
Tangible net asset value (TNAV) per share	Tangible equity (total equity less intangible assets and AT1) as at the period end of £4,528m (30 September 2021: £4,185m) divided by the number of ordinary shares in issue at the period end of 1,446m (30 September 2021: 1,444m) (which includes deferred shares of 3m (30 September 2021: 5m) and excludes own shares held of 0.3m (30 September 2021: 0.1m)).
Underlying basic EPS	Underlying profit after tax attributable to ordinary equity holders of £254m (30 September 2021: £691m), divided by the weighted average number of ordinary shares in issue for a given period of 1,443m shares (30 September 2021: 1,442m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
Underlying profit after tax attributable to ordinary equity holders	Underlying profit before tax of £388m (30 September 2021: £801m) less underlying tax charge of £94m (30 September 2021: £31m), less AT1 distributions of £40m (30 September 2021: £79m) and was equal to £254m (30 September 2021: £691m). The underlying tax charge (or credit) is the difference between the statutory tax charge (or credit) and the tax attributable to underlying adjustments.
Underlying RoTE	Underlying profit after tax attributable to ordinary equity holders of £254m (30 September 2021: £691m), annualised, as a percentage of average tangible equity of £4,354m (30 September 2021: £3,875m) (average total equity less intangible assets and AT1) for a given period.

Abbreviations

ARR	Alternative reference rate
BBR	Bank Base Rate

Officers and professional advisers

<u>Non-Executive Directors</u>

Chairman	David Bennett(1)
Senior Independent Non-Executive Director	Tim Wade(2)
Independent Non-Executive Directors	Paul Coby(2) (4) Geeta Gopalan(2) Elena Novokreshchenova(2) Darren Pope(2)
Non-Executive Director	Amy Stirling(3) (4)
<u>Executive Directors</u>	David Duffy Clifford Abrahams
Group Company Secretary	Lorna McMillan
Group General Counsel and Purpose Officer	James Peirson
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

(1) Member of the Remuneration Committee and Governance and Nomination Committee
(2) All Independent Non-Executive Directors are members of the Remuneration Committee, Audit Committee, Risk Committee and Governance and Nomination Committee
(3) Member of the Governance and Nomination Committee
(4) Amy Stirling will step down as a Non-Executive Director on 5 May 2022 and Paul Coby will step down as an independent Non-Executive Director on 30 June 2022.

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